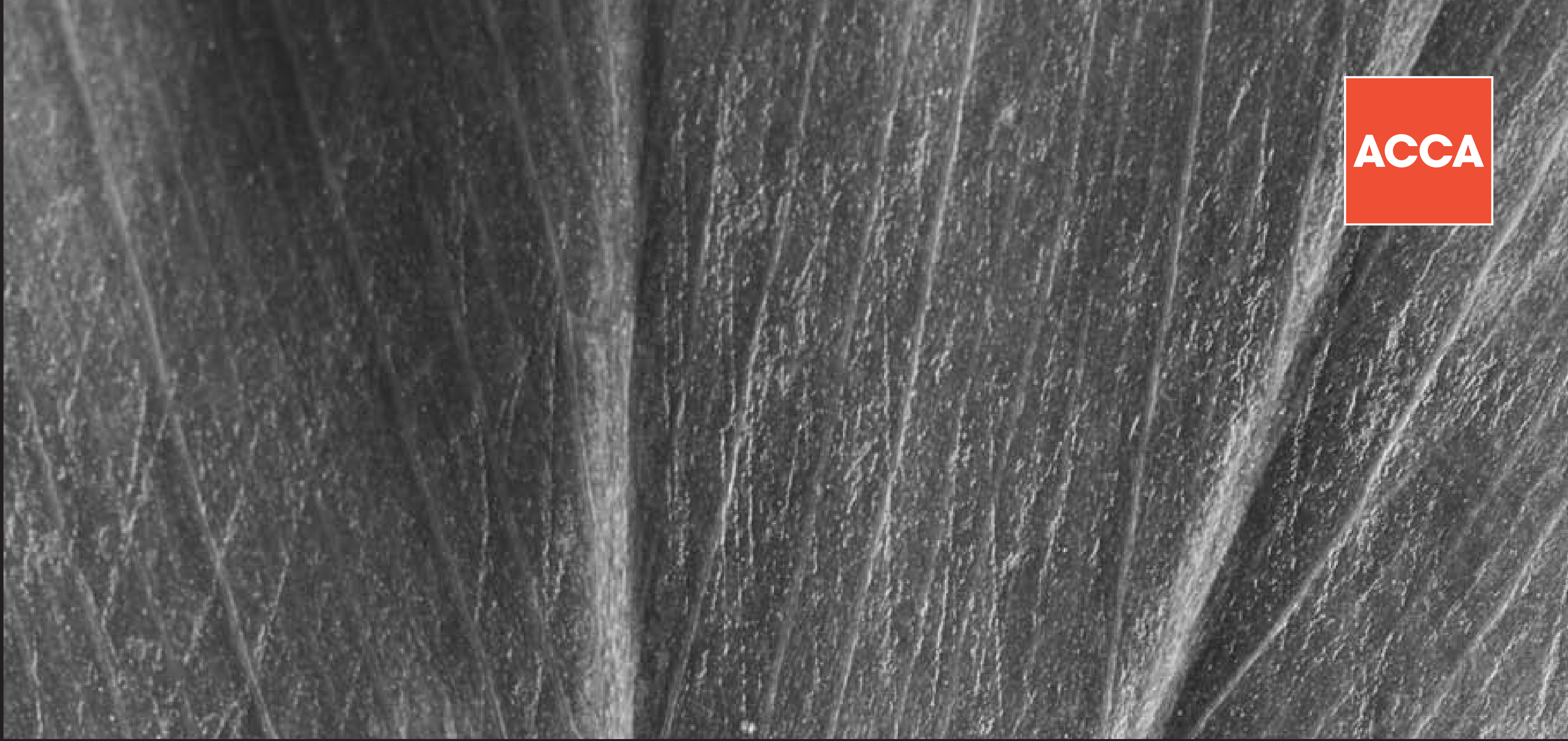

ACCOUNTANTS FOR BUSINESS

Understanding investors: the changing corporate perspective

About ACCA

ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants. We aim to offer business-relevant, first-choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management.

Founded in 1904, ACCA has consistently held unique core values: opportunity, diversity, innovation, integrity and accountability. We believe that accountants bring value to economies in all stages of development. We aim to develop capacity in the profession and encourage the adoption of consistent global standards. Our values are aligned to the needs of employers in all sectors and we ensure that, through our qualifications, we prepare accountants for business. We work to open up the profession to people of all backgrounds and remove artificial barriers to entry, ensuring that our qualifications and their delivery meet the diverse needs of trainee professionals and their employers.

We support our 162,000 members and 428,000 students in 173 countries, helping them to develop successful careers in accounting and business, with the skills needed by employers. We work through a network of over 89 offices and centres and more than 8,500 Approved Employers worldwide, who provide high standards of employee learning and development.

ABOUT ACCOUNTANTS FOR BUSINESS

ACCA's global programme, *Accountants for Business*, champions the role of finance professionals in all sectors as true value creators in organisations. Through people, process and professionalism, accountants are central to great performance. They shape business strategy through a deep understanding of financial drivers and seek opportunities for long-term success. By focusing on the critical role professional accountants play in economies at all stages of development around the world, and in diverse organisations, ACCA seeks to highlight and enhance the role the accountancy profession plays in supporting a healthy global economy.

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This report is the last in a four-part series examining what investors want from corporate reporting and how organisations are responding to their needs.

It examines current trends in reporting and the audit relationship from the perspective of the CFO, with a particular emphasis on real-time and integrated reporting.

Contents

Foreword

ACCA has consistently argued that the role and interests of investors need to be better understood and placed more centrally in policymaking processes by legislators and standard setters. The investor's voice is often not heard strongly enough, which is perhaps understandable given the range of organisations and interests that can fall under the heading of 'investors'.

In order to address this need for greater understanding of the investor landscape, ACCA, in collaboration with Longitude Research, developed a four-stage project examining the changing investor universe since the global financial crisis, and what investors want from corporate reporting. The project examined how pressure to respond to the needs of investors may change the approach taken by companies in reporting their activities and engaging investor groups.

Over the four stages, the project examined:

- recent developments in the investor landscape, trends and emerging issues since the global financial crisis
- the kind of information investors need to make their decisions, how they now like to receive that information (both the format and the communications channel), and their level of trust in what they receive
- the move towards 'real-time' reporting, and how companies are responding to calls to disclose certain information with much more immediacy, rather than at the end of a quarter or year
- how companies are already changing their investor engagement and reporting activities to reflect evolving investor demands, and what this means for the finance function and the chief financial officer.

This report is the fourth stage of that process. Although it uses the UK and Ireland-based CFOs investor base for its analysis, the trends it identifies have a much wider resonance, internationally.

Helen Brand
ACCA chief executive

Executive summary

ABOUT THE RESEARCH

This report, which was written by Longitude Research on behalf of ACCA, is based on a survey of 200 CFOs and other senior finance professionals, conducted in October 2013, and a programme of in-depth interviews with leading figures from the corporate finance community.

Around half the respondents represented companies with annual revenues in excess of US$500 million. There was a good spread across sectors, including automotive, consumer products, financial services, media and entertainment, oil and gas, and technology. Respondents were split between the UK and Ireland, with 80% in the former, and 20% in the latter.
ACCA would like to thank everyone who took part in the research.

IN-DEPTH INTERVIEWS

In particular, ACCA would like to thank the following, who provided in-depth interviews with the research team.

- Holly Birch, head of investor relations, The Go-Ahead Group
- Stephen Burrows, head of financial reporting and investor relations, Great Portland Estates
- Tony Cates, head of audit, KPMG
- Andy Chard, director of financial reporting, AstraZeneca
- Andy Davies, partner, EY
- Bob Dohrer, global leader for quality and risk, RSM International
- Andy Moss, finance director, Phoenix Life
- Ross Paterson, finance director, Stagecoach Group
- Susan Robertson, chief financial officer, Velocys
- Ankita Tyagi, research analyst, Aberdeen Group

THE KEY FINDINGS

The speed with which companies release their annual accounts is seen as an important indicator of efficient management and good governance. Almost two-thirds of CFOs say that external stakeholders see a speedy close as a sign of good management. A majority of CFOs have already made efforts to close their accounts more quickly, and most intend to reduce closing times further over the next three years. A broad majority of respondents believe that faster closing has not only improved their reporting culture, but it has also led to better decision making in the corporate reporting cycle. Moreover, the reduction in closing time has allowed companies to re-allocate important resources in their finance departments to make them more efficient.

There is cautious support for a move to real-time reporting. Two-thirds of CFOs surveyed would welcome a move towards greater adoption of real-time reporting, but they also worry that this could compromise competition-sensitive information and lead to misstatements. In addition, 45% of respondents said that the difficulty of instituting effective controls to ensure accuracy is a major obstacle to more widespread use of real-time financial reporting.

Within three years, nearly half the companies surveyed could have moved to an integrated reporting model. Around 40% of the companies surveyed are either taking active steps to move towards an integrated reporting model, or have already implemented one. The others are adopting a 'wait and see' approach or, in the case of 10%, have no intention of making the move unless it is compulsory. CFOs consider that the main benefit of integrated reporting is the ability to present the company as an advocate of sustainability, but many also say that it would help them to align the company's risks with its opportunities, adopt a more holistic view of the true drivers of corporate performance, and build better relationships with external stakeholders. Companies with an emphasis on longer-term investors are especially likely to see implementing integrated reporting as a priority.

Relations between companies and their auditors are generally good but there is room for improvement. Asked how the audit profession could improve, respondents point to lower fees and greater competition as key preferences. Nonetheless, interviews with CFOs paint a more nuanced picture. While CFOs, in general, are understandably keen to reduce costs where possible, many of those interviewed for this report make the connection between price and quality of service: they do not want the quality of an audit to suffer if fees fall.

THE CHALLENGES AHEAD

The survey reveals a number of findings that should be examined by CFOs and other senior finance professionals. The key challenges that they will need to consider over the next few years include the following.

Speeding up the internal reporting process

Many companies have already taken steps to secure 'real-time' information within the business, but others still have considerable work to do. Up-to-the-minute information about key performance metrics is a vital source of competitive advantage, because it helps companies to become more agile, meaning they can respond more quickly to market changes.

Focusing on the accuracy and integrity of data

Real-time information within a business only has value if executives can have confidence in the underlying data. Accessing accurate, complete data is a major challenge, particularly in companies where data is distributed widely across multiple applications and silos. Making data more consistent, standardised and accurate remains a key goal for many companies.

Accelerating the external reporting process

This research has shown that investors and other external stakeholders place significant value on the speed with which a company is able to release audited financial information. Because investors see a faster close as a proxy of good corporate governance and management, companies that can release information quickly will have an advantage in attracting investment. It can also help to strengthen reputation.

Balancing speed with assurance

Investors value more frequent, rapid reporting and CFOs are, for the most part, supportive of this trend. Nonetheless, care must be taken to strike a balance between speed and the need for assurance. Releasing information quickly has no benefit if that information is subsequently found to be subject to misstatements or reporting errors.

Preparing for integrated reporting

The research has found strong support for integrated reporting among investors. Most of the CFO respondents also indicate that they will ultimately move towards this model. There is, however, some reluctance among companies to be a first mover. Although policymakers need to do more to educate and engage corporates in the benefits of integrated reporting, CFOs themselves should develop a better understanding so that they can determine the right time to make the transition.

Considering carefully the pros and cons of more frequent reporting

Investors have signalled that they want companies to report more frequently, and that they will reward companies that do this, but the downsides of more frequent reporting also need to be considered. In particular, numerous studies – such as The Kay Review of UK Equity Markets and Long-term Decision Making, for instance – have shown that quarterly reporting leads to short-termism and volatility in financial markets. Care must be taken – at a policy level as well as among corporates – that the benefits of more frequent reporting are not outweighed by the disadvantages.

1. Speed of external reporting

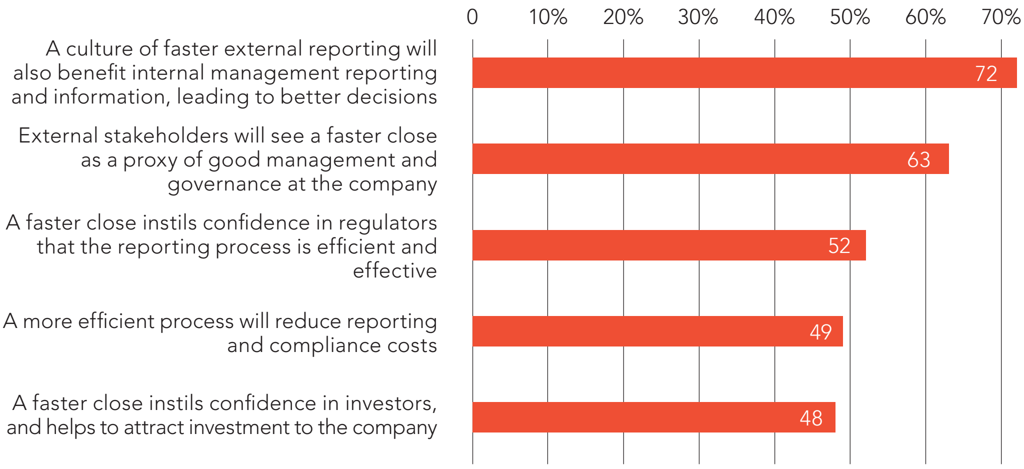
The pace at which information becomes available continues to accelerate at a bewildering rate. News stories that once may have taken a day or more to become widely known are now transmitted instantly around the world via social media and other channels. Business intelligence tools now give companies the ability to make decisions on the basis of up-to-the-minute customer data. In the world of financial markets, things move so rapidly that trading decisions using algorithms are now made in a matter of milliseconds.

Given the speed of these information flows, it seems somewhat incongruous that, for most investors, the key audited source of information about a company is a report that is published only once a year. Not only that, but the gap between the time when a company closes its books and releases an annual report can be eight weeks or more. In a world of high-frequency trading and 24/7 business news, that can seem like a lifetime.

Yet, despite this timing mismatch, investors remain deeply wedded to the annual report. As ACCA highlighted in its recent report Understanding Investors: Directions for Corporate Reporting, investors point to the annual report as the most valuable source of input for making investment decisions, by a considerable margin. Information and markets may now move at the speed of light, but the annual report remains a vital part of the investor toolkit.

There is, however, growing demand among investors for annual reports to be published more quickly. In the same ACCA survey, just 51% of investors said that they are satisfied with the timeliness of company information. More importantly, from the perspective of the CFO, investors make clear distinctions between companies that they regard as reporting quickly and efficiently, and those that they believe do not. In another report in this series, Understanding Investors: The Road to Real-time Reporting, 70% of investors

Figure 1.1: What do you see as the biggest benefits of a 'faster close' in the corporate reporting cycle?



said that companies reporting in real time would have an advantage in attracting investment, and 73% would consider that companies that report in real time have more robust corporate governance.

Broadly speaking, CFOs agree with this sentiment among their investor base and recognise that a faster close will yield advantages. Almost two out of three CFO respondents think that a key benefit of a faster close is that external stakeholders see it as a sign of good management; and more than half find it beneficial that a rapid reporting rate also instils confidence in regulators (see Figure 1.1). This suggests that many finance professionals have an appetite to accelerate the closing process in response to growing investor and stakeholder demand.

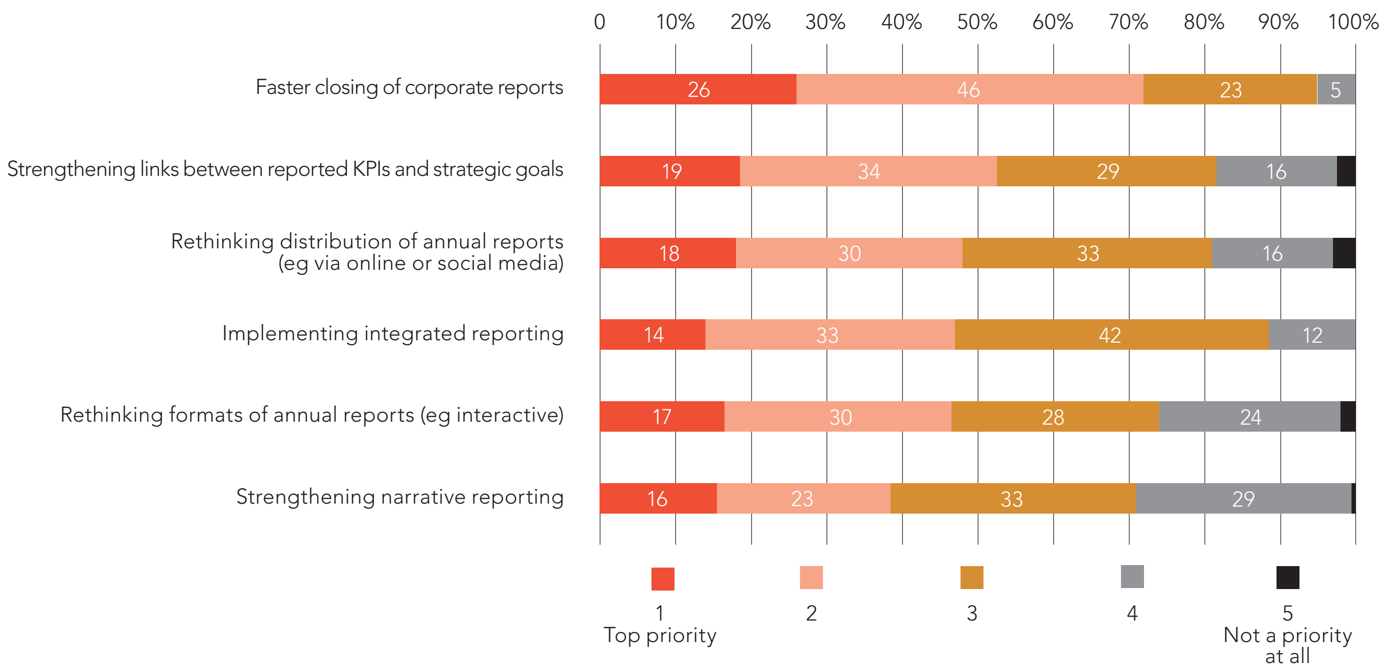
A faster close also benefits companies because it facilitates a more efficient use of scarce resources. Andy Chard, director of financial reporting at AstraZeneca, which has prioritised fast closing of accounts for some time, points out that a reduction in the time to close has had this effect: 'By closing faster, we can free up resources in our finance department, and they can move on to other important priorities.'

Indeed, there is now such an emphasis on speed that many finance leaders consider it more important than assurance.

Among our respondents, less than one-third of CFOs agree that assurance is more important than speed when it comes to communicating financial information to external stakeholders. Tony Cates, head of audit at KPMG, notes that there is a trend for some companies to release unaudited figures at year-end, but he adds that this only works if companies are highly confident that their numbers are correct.

The survey finds that a majority of companies are taking steps to accelerate the closing process. More than 7 in 10 respondents say that faster closing is a priority for their business (see Figure 1.2). Over the past three years, almost 3 out of 5 respondents

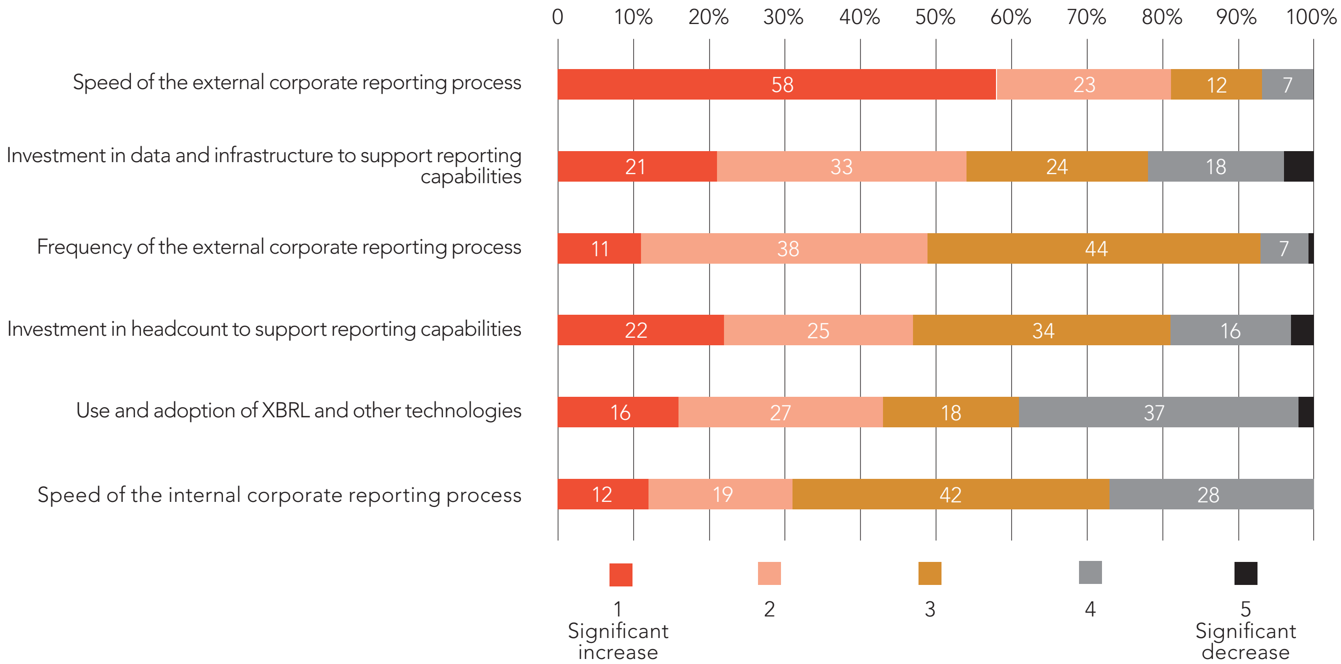
Figure 1.2: How much of a priority are the following reporting initiatives in your business?



have already made significant reductions in the time it takes to publish their annual report following year-end. A further 28% have moderately increased their reporting speed over this period (see Figure 1.3). Over the next three years, companies want to reduce the amount of time to close their books from an average of 51 to 45 days.

The extent to which companies are focusing on a faster close, however, depends on a variety of factors, including investor profile. For example, those respondents who say that they have a higher proportion of short-term investors are more likely than those that have predominantly long-term investors to have accelerated the external reporting process. They are also more likely to perceive pressure from shareholders for a faster close and to think that external stakeholders will see a faster close as a sign of good management and governance.

Figure 1.3: Over the past three years, what changes have you made to the following aspects of your company's corporate reporting?



FAST CLOSING AT ASTRAZENECA

The pharmaceuticals company AstraZeneca has long had an emphasis on faster closing. The company currently runs an eight-day reporting and consolidation process to close its books. Andy Chard, director of financial reporting at AstraZeneca, believes this is important for many reasons. First and foremost, it provides faster information for internal and external stakeholders. It also releases finance department staff to focus on other areas of the business. 'Faster reporting allows the finance team to move on to other matters more quickly, such as acting as a business partner,' he says. 'I think it also provides benefits to the company in terms of reputation.'

To achieve a faster close, the company has made a number of changes. A key factor has been to make local business units responsible for their figures. 'As part of our process to speed up closing, local CFOs can't submit their numbers until their intercompany reconciliations are complete, so it becomes part of their process rather than our process,' says Chard. 'Holding the local CFOs to account for their numbers took a lot of heat out of our consolidation process – it was a big step forward for us.'

Chard also emphasises the importance of governance. 'We run a highly centralised approach to drive timelines and policy, and that is key to closing quickly. It's about identifying the significant transactions early, and coordinating the timetables and policies with a high degree of control and accountability. This kind of centralised policy is a key part of the culture at AstraZeneca.'

A fast close also depends on an effective relationship with auditors. 'If we complete a business acquisition mid-month, we will involve our auditors almost immediately,' says Chard. 'There is a high degree of interaction, and it's iterative in terms of their involvement throughout the year. And, as we run a centralised policy framework, they can plan their work according to these predetermined rules.'

2. Speed of internal reporting

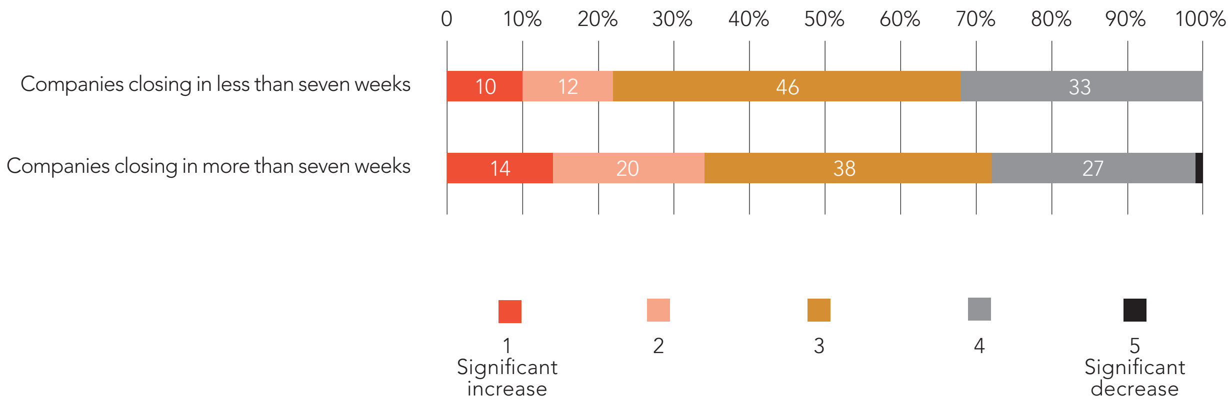
Achieving a faster close requires companies to have a strong internal reporting framework in place. This depends on a combination of ingredients, including robust technology infrastructure, the ability to collect, standardise and aggregate data quickly, good governance and strong internal processes. Quicker internal reporting brings with it a variety of benefits – some of which are outlined in the CFO Research Service report Accelerating the Financial Close: CFOs' Insights into the Benefits of a High-Quality Close – including the ability to make decisions more quickly, and the ability to consider figures fully before releasing them to the market.

Among the respondents, there seems to be an appetite to make these changes, despite a cost-conscious environment in which it remains difficult for companies to justify new projects and initiatives. For example, a majority of respondents report increased investment in data and infrastructure to support reporting capabilities (see Figure 1.3), and 47% are investing in headcount to support reporting capabilities.

Ross Paterson, finance director at Stagecoach Group, argues that a focus on internal processes has been a key driver of accelerating internal reporting at his company. 'In the past three years, internal processes have become tighter because the board and audit committee have wanted more time to see and understand the results. That means that, if they feel any changes are required, they have time to reflect on it before it goes to the market,' he says.

There are clear signs from the survey that companies with a slow external reporting process are taking steps to address the internal reporting capabilities that will enable faster external closing. Companies that currently take more than seven weeks to close their books have a particular focus on strengthening their internal reporting capabilities (see Figure 2.1). Those with a faster external close, by contrast, focus less on speeding up internal processes, probably because these changes have already been made. 'You need to speed up your internal processes before you can begin to consider speeding up external processes,' says Cates.

Figure 2.1 : Over the past three years, what changes have you made to the speed of the internal corporate reporting process?



3. Fast, faster, real time?

Many companies are increasingly able to access real-time data to influence decision making (Aberdeen Group 2012). Dashboards and other technologies can offer senior executives a constant flow of up-to-the-minute information on the cash position, sales and key risk exposures. In addition to presenting these high-level metrics, many business intelligence tools will enable executives to 'drill down' and access highly granular information – sometimes down to a transaction level.

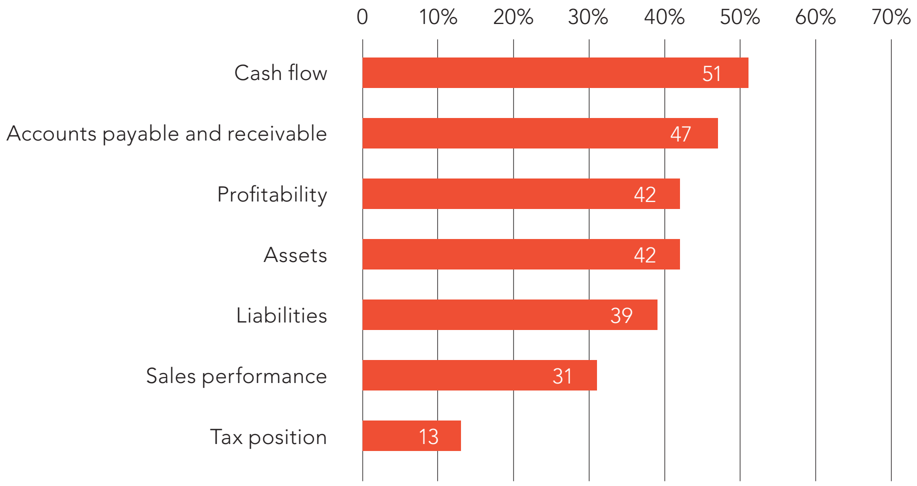
Many of the respondents already have pockets of real-time information within their business. Just over half say their current cash flow figures are disseminated internally in real time; 42% can get instant profitability data and 47% can access accounts payable and receivable by the minute (see Figure 3.1). Ankita Tyagi, research analyst, Aberdeen Group, notes that research suggests that finance departments are now seeking real-time information for a wide variety of tasks, including cash flow and price monitoring, risk management, financial planning, back-office functions, accounts payable and receivable, and payroll (Financial Director 2011).

While real-time information is available within a business, possibly on a minute-by-minute basis, investors have to make do with annual, biannual or quarterly reporting.

There are signs that this discrepancy is no longer sustainable. As ACCA found in its recent report in this series, Understanding Investors: The Road to Real-time Reporting, investors have a strong appetite for real-time reporting, whereby companies provide information on an as-needed basis instead of only at pre-determined intervals (Aberdeen Group 2012). They say that an emphasis on real-time information would improve their understanding of corporate performance, enable them to respond more quickly to information, and enhance the returns they can achieve.

So what do companies and investors mean by real-time reporting? In reality, there is no single accepted definition of 'real time'. A recent survey showed that there are different interpretations of the concept. Almost half of respondents (49%) view information that is updated

Figure 3.1: In which of the following areas would you say you currently have real-time financial information internally within the business?

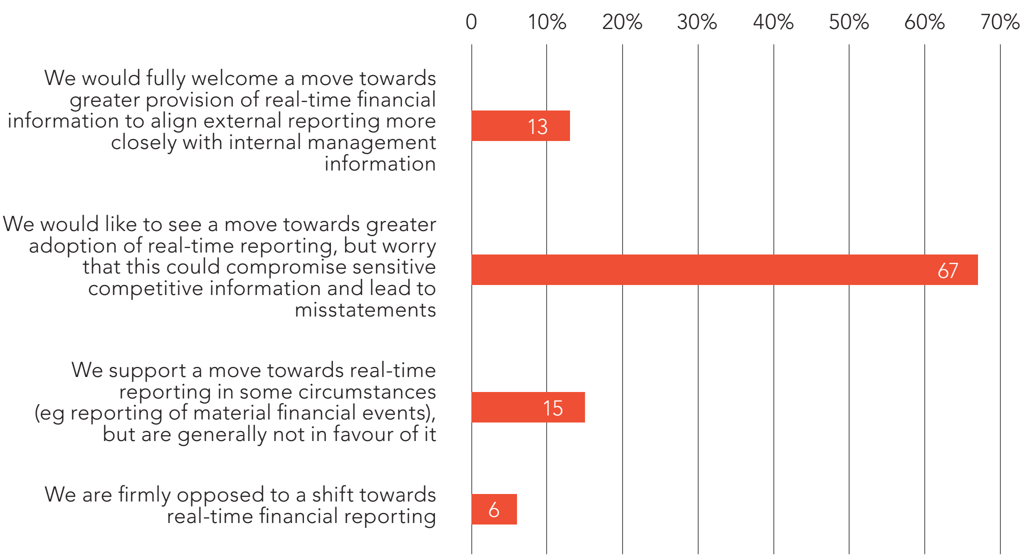


on a per-minute basis as real time. A slight majority of respondents (51%) think data can still be considered real time if it is updated less frequently: on an hourly or even a daily basis (Aberdeen Group 2012).

It is not just investors who see benefits in real-time reporting. The ACCA survey also finds strong support for the concept among CFOs – although they do have some concerns. Two-thirds of CFOs say they would like to move towards widespread real-time reporting, but they worry that it could compromise sensitive information, such as sales figures, and could increase the chance that competitors will gain actionable intelligence (see Figure 3.2). 'You don't want to disclose too much but you don't want to disclose too little either, so you want to give people a sense of transparency without showing all your cards,' says Tyagi.

Frequency of reporting is also influenced by a company's sector — and by benchmarking against a peer group of competitors and similar companies. "If you are a pharmaceuticals company, then you need to be coming out with the results roughly the same time as everyone else," says Tony Cates.

Figure 3.2: Which of the following statements best describes your perspective on the potential for companies to report financial information in 'real-time' (ie on-demand reporting rather than episodic at set intervals)?



4. Barriers to real-time reporting

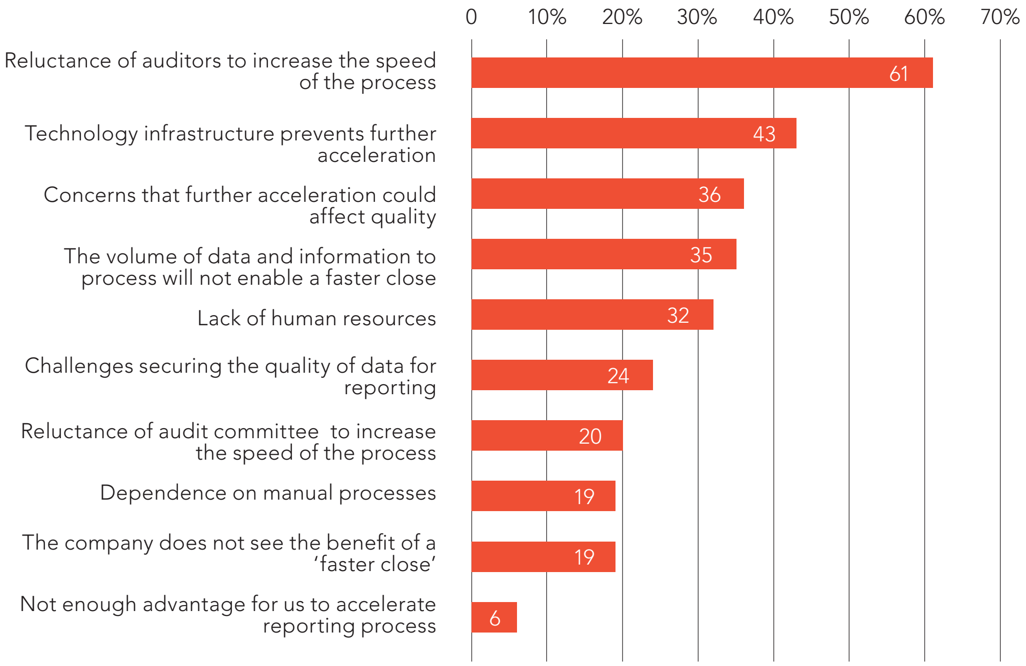
Despite the support for real-time reporting, it does present both investors and companies with a number of challenges. One key concern is that it can lead to misstatements. While proper assurance is time-consuming and decreases the speed of information flow, it does give stakeholders confidence that figures meet accounting standards. Andy Davies, a partner at EY, says that today's financial reporting demands a high degree of judgement. 'As data reporting gets faster and faster, there will be less time to go through the necessary steps to make sure it is presented correctly,' he notes. Davies also contends that close-to-real-time information will always be less accurate because it will never adhere to current accounting standards.

CFOs surveyed for this report see auditors as the biggest barrier to real-time reporting, with 3 out of 5 respondents saying that they are reluctant to speed up the reporting process (see Figure 4.1). But Mr Cates argues that technological tools now allow auditors to work closely together with clients to produce faster reporting. 'Strictly speaking, the auditing process does slow things down,' he says. 'But I think we as auditors are working closer with companies so that they can do real-time. We are developing new tools that will allow us to do this.'

Bob Dohrer, global leader for quality and risk at RSM International, urges a joint effort between management and auditors. 'I think auditors are making huge strides towards providing information more quickly, but they are heavily dependent on the quality of the company's internal controls, reporting mechanisms and structures,' he observes. 'When those systems are questionable, auditors need to use more time-consuming, in-depth audit procedures, and that drags out the time frame under which assurance can be provided.'

The difficulty of putting in place appropriate controls to ensure accuracy is also identified by 45% of respondents as a key barrier preventing wider adoption of real-time financial reporting. More than a third of respondents are worried that real-time reporting would lead to premature 'estimates' and believe a timelier provision of corporate reporting information would be prohibited by the sheer volume of data.

Figure 4.1: What do you see as the biggest barriers to the 'faster close' and timelier provision of corporate reporting information to external stakeholders?



CONCERNS ABOUT SHORT-TERMISM

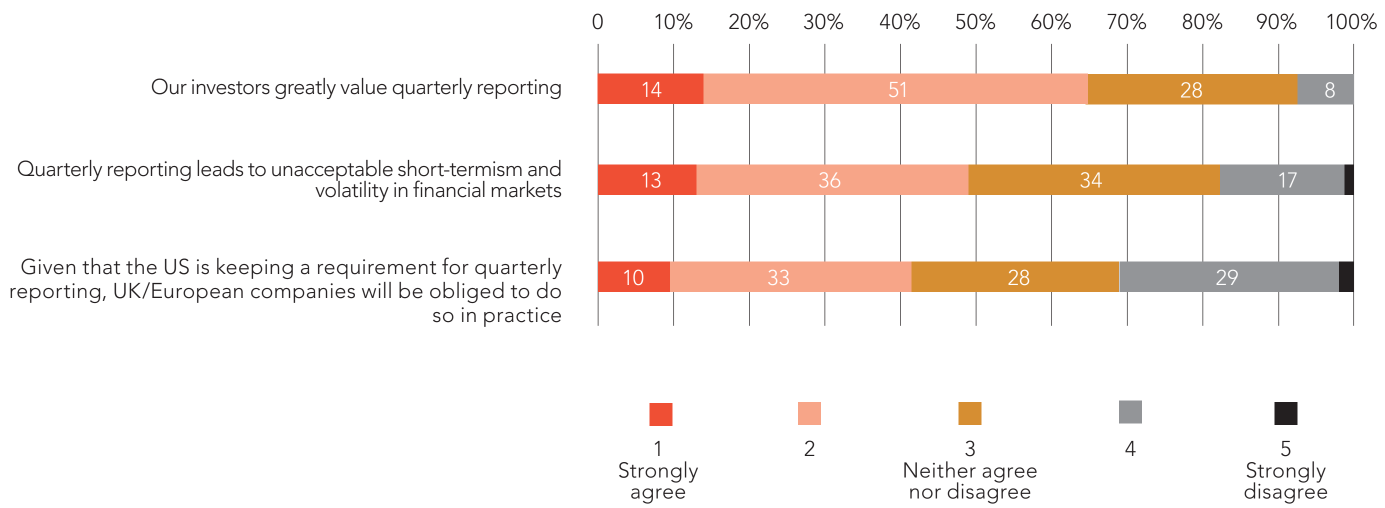
Perhaps the biggest concern about the more frequent provision of reporting information is its impact on financial markets. Although up-to-the-minute information can lead to better decisions for an individual investor, it can also lead to greater short-termism among investors as a whole, and greater volatility in financial markets.

There have been numerous studies (Bauer College of Business 2012) that show the link between more frequent reporting and short-termism. An influential early report from the CFA Institute/Business Roundtable Institute for Corporate Ethics, Breaking the Short-Term Cycle (CFA 2006), which examined short-termism in the US in the 1980s, concluded that quarterly reporting is closely associated with short-termism. When investors and analysts focus excessively on short-term quarterly earnings, they divert attention from long-term value creation.

More recently, the Kay Report (Kay 2012), which examines the impact of UK equity markets on the long-term performance of companies, also supported less frequent reporting. A solid majority of respondents to the consultation for the report, who represented both companies and investors, said that they considered quarterly reporting and interim management statements to be 'useless or misleading information'. They also stated that, for many businesses, reporting occurs too frequently.

This dilemma leads to some slightly mixed messages among both investors and companies about the benefits of moving to a more frequent reporting model. In a previous report in this series, Understanding Investors: Directions for Corporate Reporting, more than two out of five investors said that mandatory quarterly reporting should cease. Investors emphasised that quarterly reports do not help them make long-term decisions, and they would prefer to move away from quarterly reporting as well as the larger reporting framework that is now primarily producing information for high-frequency traders.

Figure 4.2: Please indicate whether you agree with the following statements.



There is some ambivalence on the part of CFOs, as well. While the present survey reveals that almost two out of three CFOs say they value quarterly reporting, only 13.5% of respondents strongly believe this (see Figure 4.2). At the same time, many CFOs believe there are negative side effects to quarterly reporting: nearly half the respondents (48%) agree that quarterly reporting leads to unacceptable short-termism and volatility in financial markets. Interestingly, companies with a higher proportion of short-term investors are more likely to think they should report quarterly or more frequently, which supports the view that short-term investors desire a more frequent flow of information.

GETTING THE MESSAGE TO INVESTORS

Communicating with investors can be challenging, particularly for smaller companies. The first difficulty is getting the report into the hands of investors. Susan Robertson, CFO of Velocys, says that, out of hundreds of copies of annual reports, at least half go to nominee companies instead of to shareholders directly.

The second challenge is getting investors to read the report. Stephen Burrows, head of financial reporting and investor relations at Great Portland Estates plc, says that both investors and analysts tend not to review reports thoroughly. 'When we put out our annual reports last year, I phoned all our sell-side analysts and emailed them copies,' he says. 'I followed up a couple months later, and few had gone through it in detail.'

Burrows believes that many investors and analysts use the reports only as a reference tool for answering specific questions. 'They'll look through the press release for the key bits, and they'll rely on the presentation that the management gives to the analyst and investor community. And that's in part because financial statements are just becoming more and more complicated.'

More companies are reconsidering the distribution of annual reports and are thinking about some kind of electronic version. Indeed, fewer than one in seven respondents say that rethinking the distribution of annual reports (eg via online or social media) is not a priority. 'We carry our annual report on our website and make sure that the individual documents we produce for both the buy and sell side contain lots of information and give a coherent message,' says Burrows.

5. Integrated reporting

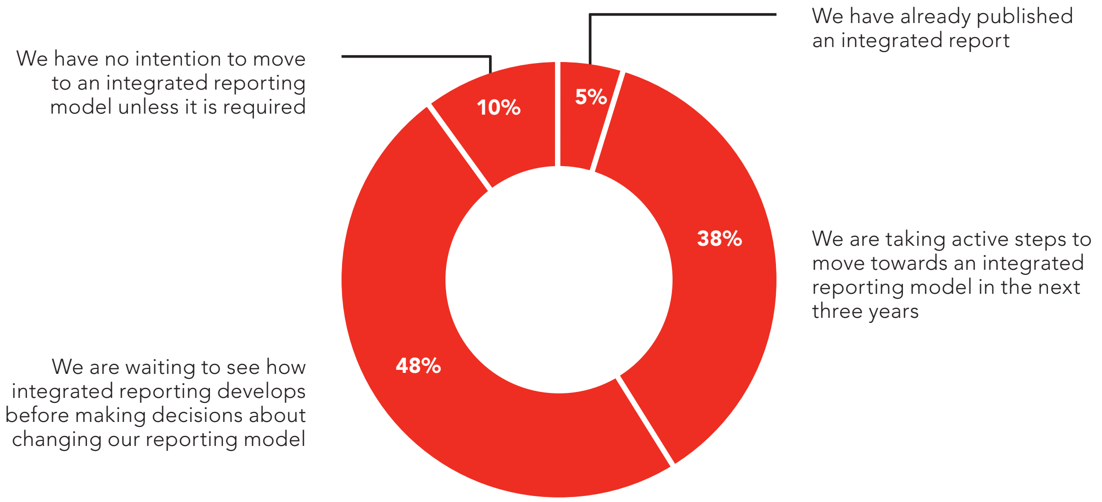
In recent years, corporate reporting has become increasingly complex. In addition to releasing financial statements, many companies will also report on governance, key risks and opportunities for the business (often through narrative reporting), executive compensation, and environmental performance. For a growing number of stakeholders, the sheer volume of reporting information, and the fact that different elements are tailored for different audiences, has become overwhelming.

The aim of integrated reporting is to provide a more consistent, holistic picture of how companies create value by bringing together these different strands of reporting. It also aims to address current shortcomings with traditional corporate reporting, which tends to see tangible assets as the main source of market value when, today, they typically represent only a relatively small proportion. By helping companies to manage and report the full range of assets and sources of value, integrated reporting is intended to tell the overall story of the organisation, rather than focusing on a smaller subset of financial metrics.

As ACCA's earlier report in this series, Understanding Investors: Directions for Corporate Reporting, showed, investors have a strong appetite for integrated reporting. More than 90% think that it would be valuable for companies to combine financial and non-financial information into an integrated reporting model.

For the most part, companies remain fairly cautious about the trend, although most expect to migrate to integrated reporting at some point in the future. Currently, only a small minority, 4.5%, of CFOs say that their company has already published an integrated report (see Figure 5.1). That said, this is an aspect of reporting where most CFOs are keeping an open mind. Just under half say that they are waiting to see how integrated reporting develops before making decisions about changing their reporting model. A further 37% are taking active steps towards an integrated reporting model over the next three years, and only 10% say that they have no intention of doing so unless it is compulsory. In general, companies that tend to have a higher proportion of long-term investors are

Figure 5.1: Which of the following statements best describes your current perspective on integrated reporting?



more likely to see the implementation of integrated reporting as a priority.

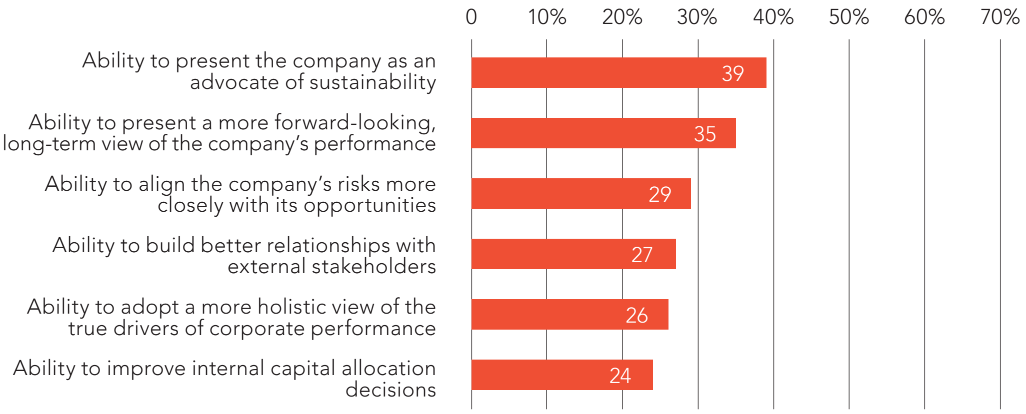
For CFOs, the main benefit of integrated reporting is the opportunity it gives to present the company as an advocate of sustainability (see Figure 5.2). In addition, many CFOs also believe that it would provide both an enhanced ability to align the company's risks with its opportunities, and a greater capacity to adopt a more holistic view of the real drivers of corporate performance and to build stronger relationships with external stakeholders.

Some CFOs worry, however, that integrated reporting also has its disadvantages. Inevitably, it means publishing more data and giving stakeholders even more information than they currently receive. If reports are expanded to tell a more complex story, companies may struggle to prioritise messages and maintain narrative clarity. 'Integrated reporting could create a thicker book, which means that people are less likely to pick it up and read it,' observes Burrows. 'It is also difficult to prioritise elements of the company's narrative. All the time, you're trying to weave key messages through a detailed report without diluting them. It's hard to keep the messages crisp.'

Early feedback from businesses that have already adopted an integrated reporting model is encouraging, but not overwhelmingly so. 'Sustainability is integral to our strategy and the way we operate at every level of the business, so we feel it is important that this is reflected in our reporting,' notes Holly Birch, head of investor relations at the Go-Ahead Group. 'It's easier for an investor to make important decisions when presented with a complete and holistic view of our business, looking at our business model in the context of the wider markets in which we operate.'

Velocys's Susan Robertson believes, however, that smaller businesses may face resource constraints when it comes to integrated reporting. 'I would be cautious,' she says. 'We're a relatively small company so, at this stage, we're probably going to be followers because of our size and because the resources we have are limited.'

Figure 5.2: What do you see as the main potential benefits of integrated reporting?



6. Competition and fees in the audit relationship

Companies' relationships with their auditors are under unprecedented scrutiny. In October 2011, the Office of Fair Trading referred an investigation to the Competition Commission involving the supply of statutory audit services to large companies in the UK. The review suggested that a lack of competition was leading to higher prices, lower quality and less innovation. It recently concluded that the UK's biggest companies should put their statutory audit engagement out to tender once every decade (Competition Commission 2013).

The debate over market concentration and competitiveness in the audit sector has intensified over the past couple of years. Many CFOs would like to see increased competition between auditors: almost half the CFOs surveyed said they would welcome more competition between audit firms. 'I'm certainly supportive of some form of rotation over a period of time,' says Andy Moss, finance director at Phoenix Life. 'We're just going to make sure that it's not too short a period of time because the disruption would be a lot, both for the audit firms and the company itself.'

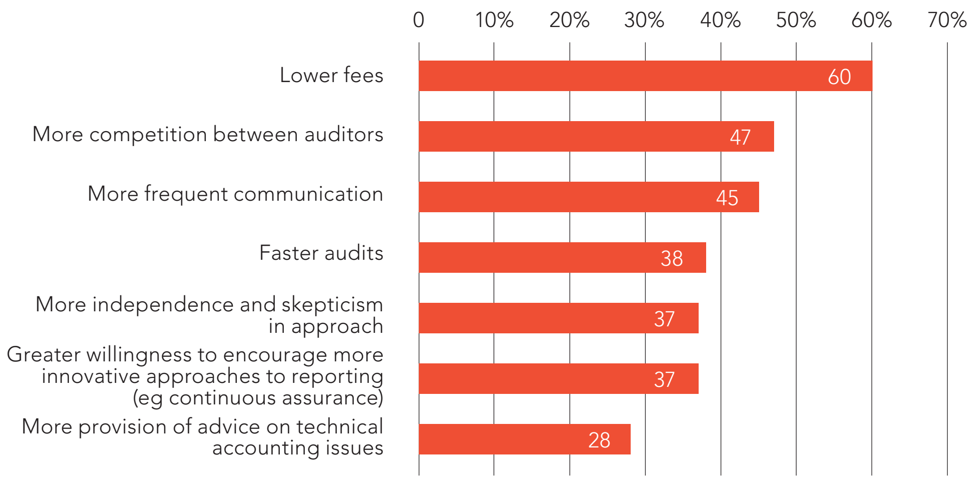
At the same time, many respondents to the survey complained that auditors' fees are too high. When asked which changes they would most like to see in the audit profession, almost 3 out of 5 respondents said they would like to see fees reduced (see Figure 6.1).

This is a common grumble with any service relationship. In reality, however, most CFOs admit that they would rather pay higher fees than see standards slip. 'From a company point of view, we would like to see audit fees be lower, like all our costs,' says Paterson. 'On the other hand, we want our auditors to make a bit of money on the audit engagement; otherwise, there is a danger that they are encouraged to cut corners. We need to strike the right balance.'

Market forces are likely to drive fees up rather than down because auditors must spend more time and resources navigating the increasing burden of regulation. 'Audits are taking longer and longer to complete because auditors now have to spend much more time on their own risk-management processes,' states Burrows. 'The longer they take, the more they charge.'

In addition, more frequent rotation between auditors may cause fees to increase, rather than bringing them down. 'With any new audit relationship, there's a steep learning curve in the first couple of years, during which the auditors are building their understanding of a client company,' says Burrows. 'The prospect of shorter contracts forces them to charge more upfront because they need to spend time getting up to speed.'

Figure 6.1: Which of the following changes would you most like to see in the audit profession?



7. Conclusion

Trends in reporting need to keep pace with changes in the business environment. Technology, for example, has enabled much more rapid internal reporting (PwC 2007). In many cases, businesses now have access to some real-time data and management has become used to having this information readily available when making decisions.

In theory, the availability of real-time information within a business should enable more rapid external reporting to investors. There is certainly demand for this: as ACCA's research has shown in this series, investors would like more real-time information, and look favourably on companies that are able to provide it.

As this report shows, there is also an appetite for faster reporting among CFOs. Many are reducing the time lag between closing the accounts and releasing financial information to the markets. They are also showing an appetite for collecting and releasing some elements of information in real time. At the same time, however, there is a strong sense of caution, with most CFOs recognising that quarterly, or more frequent, reporting, has broader systemic consequences for financial markets.

Care must be taken, therefore, to make the right decisions on frequency of reporting. Numerous studies (Bauer College of Business 2012, CFA 2006, Kay 2012) have shown that a shift to real-time, or even quarterly reporting, can intensify short-termism. It can also create volatility in financial markets (The Conference Board, 2006). More frequent reporting can also be a significant management overhead, requiring new processes and technology to provide greater assurance (PwC, 2007)

Companies also need to think about the impact on reporting of trends such as the current emphasis on sustainability. Just a few years ago, corporate social responsibility programmes were often adjuncts to business. Today, sustainability is seen as an integral part of it (Accenture 2013). The same transition needs to take place with reporting. Rather than publishing separate CSR or sustainability reports, companies are recognising the need for a more integrated approach. More still needs to be done to educate companies about the implications of pursuing this path. Policymakers and corporates need to be clear about the benefits – and avoid the danger of creating additional clutter and overwhelming investors with information.

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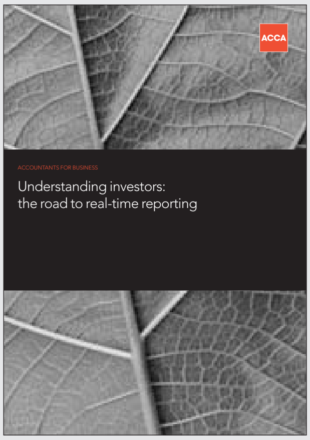
Understanding the investor landscape

ACCA, in collaboration with Longitude Research, developed a four-stage project to examine the changing investor universe, post-global financial crisis, and what investors want from corporate reporting. The project examined how pressure to respond to the needs of investors may change the approach taken by companies in reporting their activities and engaging investor groups.

Recent developments, trends and emerging issues in the investor landscape since the global financial crisis. While it uses the UK and Ireland investor base for its analysis, the trends it identifies have a wide international resonance.

The information investors need to make their decisions, how they now like to receive that information (both the format and the communications channel), and their level of trust in what they receive.



The move towards 'real-time' reporting, and how companies are responding to calls to disclose certain information with much more immediacy, rather than at the end of a quarter or year.

How companies are already changing their investor engagement and reporting activities to reflect evolving investor demands, and what this means for the finance function and the CFO.

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