Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR)

31st SESSION
15 - 17 October 2014
Room XVIII, Palais des Nations, Geneva

Thursday, 16 October 2014
Morning Session

Key foundations for high-quality reporting: Good practices of monitoring and enforcement, and compliance

Presented by

Elie Abboud
President
the Lebanese Association of Certified Public Accountants (LACPA)

This material has been reproduced in the language and form as it was provided. The views expressed are those of the author and do not necessarily reflect the views of UNCTAD.
HIGH QUALITY REPORTING: Quality Assurance

ELIE ABBOUD
PRESIDENT
LACPA

October 2014, Geneva
ISAR 31st Session
OBJECTIVES

- High Quality Reporting
  - Sound Internal Control Environment
  - Tone of the Top
  - Monitoring
  - Risk Assessment

- Quality Assurance Review System
Corporate Reporting

• Financial Statements

• Greater Disclosures
  • Annual reports to contain more information on performance, directors as well as accounting, environmental and social policies, etc. . . . .

• Risk Management Systems and Reporting Framework
Transparency and Confidence Level of Corporate Reporting

**Entity Level**

- Board of Directors
- Audit Committee
- Internal Audit Department
- Regulatory Compliance
- Executive Management
- Accounting and Financial Reporting Department
What Happened?

• The company set-up special purpose entities (SPE’s) in which the Enron CFO had an interest
• Enron began recognizing revenue from transitions with these entities that it essentially controlled and shifting debt off its own balance sheet (Financial Position)
• Earnings inflated by over $600 million since 1994
• Largest bankruptcy ever at $62.8 billion in assets
• In one day the stock price fell from $75 per share to $0.72 per share
• Andersen shreds documentation
How this Happened?

A breakdown in internal controls at both Enron and Andersen:

- Board approved these transactions and waived the “conflict of interest” policy in letting the CFO to take an ownership share of these entities
- Financial accounting and reporting controls did not work in detecting fraudulent transactions
- The control environment at Enron was one in which fear and intimidation of senior management was the norm
- There did not appear to have been a means by which Enron employees could communicate issues upstream
- CEO appears to not have had a thorough understanding of the transactions and lack of controls
- Audit Committee appeared to have been “asleep at the wheel”
- Controls at Andersen also appear to have been ineffective
Transparency and Confidence Level of Corporate Reporting

External Audit Opinion on Corporate Financial Reporting

National Professional Bodies
Peer Review Quality Control

Oversight Board
Peer Review Quality Control

Tax Compliance Department

Capital Markets Authority

Regulatory Bodies: Banking and Insurance Supervisors

Money Laundering Compliance Bodies
The Outcomes

- Informative
- Fair
- Independent

Financial Reporting
Challenges

- Non Compliance with the Code of Ethics and Conduct
- Independence Issues Comprises Auditors’ Performance and Objectivity
- Quality Control vs. Substance-over-form
Conclusion

• Professional Act: Guidelines and Procedures for Auditing of Public Interest Companies

• Quality Assurance Review Systems
  • Self Review, Leadership Responsibility within the Audit Firm
  • Ethical Requirements: Integrity, Objectivity, Professional Behavior, etc…

• Peer Review Programs

• Oversight Boards

• Regulatory Act
THANK YOU