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

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LEBANESE ASSOCIATION OF CERTIFIED PUBLIC ACCOUNTANTS

HIGH QUALITY REPORTING: Quality Assurance

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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**

Confidence Level



Enron/Andersen Matter

What Happened?

- The company set-up special purpose entities (SPE's) in which the Enron CFO had an interest
- Enron began recognizing revenue from transactions 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



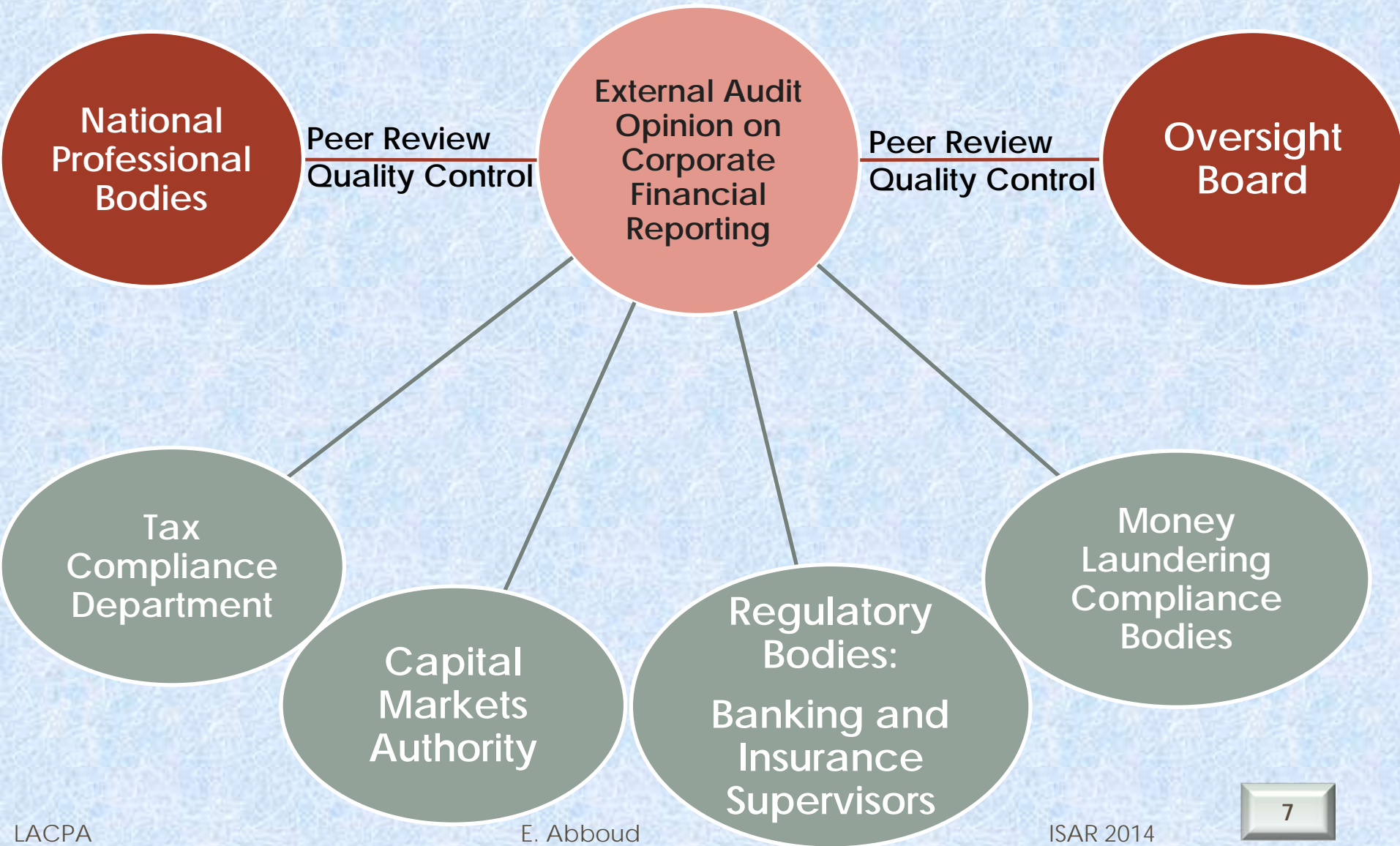
Enron/Andersen Matter

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





The Outcomes

- Informative
- Fair
- Independent

Financial Reporting



Challenges

- ❑ Non Compliance with the Code of Ethics and Conduct
- ❑ Independency 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