KPMG

AUDIT ▪ TAX ▪ ADVISORY

ISSUE 3

Finance Function **Insights**

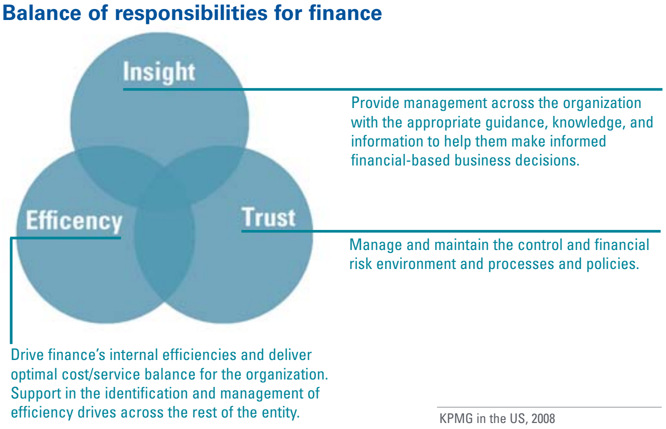
ADVISORY

Editor's NOTE

In this issue, we highlight the changing role of the CFO and leaders of finance teams. We will explore the finance function of the future and some new responsibilities that are currently accruing to the CFO.

The marketplace is changing quickly and so is the finance function. In Canada and member firms around the world, KPMG professionals are constantly scanning for trends that can affect finance functions in a variety of commercial contexts. About a decade ago, we produced a whitepaper, *Future of Finance: A Guide for Business Users*, in which we shared our insights into what the finance function would look like in 2010.

Balance of responsibilities for finance



Looking ahead to 2020, we still believe that the finance function will need to provide insight to the rest of the organization, ensure effective control and risk management, and drive finance and the overall organization to greater efficiency. We expect these core objectives to remain the same over the next decade. However, the proportion of time and effort that finance professionals spend on each core objective, and how they are delivered, will likely be very different. The diagram at left illustrates what we expect the balance of finance responsibilities to look like in 2020.

We welcome your comments and questions on the content you receive from KPMG, as well as suggestions for future topics you would like to see covered. Please feel free to send your feedback to me or contact the authors of each article directly.

Best regards,

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Upcoming EVENTS

Webcasts

Join KPMG professionals and guests from the comfort of your office as we share insights into the following issues affecting finance functions today and in the future:

Finance of the future

A detailed discussion of the finance function of the future and the skills needed for finance professionals in 2020.

The changing role of the CFO

A wide-ranging exploration of the changing role of the CFO, including the working relationship with tax and the impact of sustainability.

Cloud computing and the finance function

An overview of cloud computing services for business and possible impacts on the finance function—for better or worse.

We invite you to suggest other topics or industries of interest on the **online form**. We will contact you when dates and registration information become available.

Fast forward to 2020:

WHAT WILL FINANCE LOOK LIKE?

DAN ZBACNIK, NATIONAL LEADER, FINANCIAL MANAGEMENT ADVISORY SERVICES, KPMG

It's 2020 and successful organizations focus on what they do best; they relinquish activities that do not add value in order to achieve a sustainable and competitive advantage. For finance teams, this focus on a core, value-adding agenda has become an entrenched way of life.

To enhance its leadership position by 2020, finance has focused on four key activities: leveraging technology, standardizing data, rigorously managing external relationships, and developing its people.

IT replaces human endeavour

Finance seeks to leverage technology to drive its own efficiencies, identifying opportunities to automate transaction processing beyond the shared service centre and into systems-based solutions. At the same time, finance has reduced costs by moving lower value activities from business units to centres of excellence and shared service centres. This has freed up remaining resources to focus on performance management. Top performing finance functions will have previously cut time and costs by embedding control frameworks in a single place—the IT systems. Now, when a change is needed or controls are audited, it need only be done once.

A standard approach

In the 21st century, data is voluminous and free-flowing. To drive a high-performance business environment, finance could not rely on a proliferation of Excel® spreadsheets, multiple data sources, and different data sets. Instead, finance has promoted and enabled a consistent way of doing business, underpinned by a single data set. Finance professionals make the most of available data technology to mine nuggets of knowledge and identify trends that indicate performance gaps and opportunities.

As a prerequisite for enhanced performance management, top performing finance functions will have a facilitated cross-organization agreement on key drivers of business value. This consensual approach now enables the identification of forward-looking performance indicators that are critical to sustainable success and consistent delivery of promises to the markets.

External stakeholder management

External demands for access to management information—particularly from investors and regulators—have not lessened. In fact, these stakeholders demand increasingly standardized data to support their own informed decision making in 2020. More frequent external reporting is on the cards, with monthly reporting in some organizations becoming the norm. More regular reporting, coupled with process and data convergence, can enable analysts to make increasingly detailed comparisons between organizations.

A people business

Finance has inputs into decisions as they are shaped, and can better help organizations make timely decisions and maintain strategic advantage. Skilled finance professionals analyze financial data from within and outside the organization, drawing insightful conclusions, and helping executives make value-enhancing decisions. In a homogeneous world, the only way that finance can create competitive advantage is by developing the one asset that other organizations cannot duplicate—its people.

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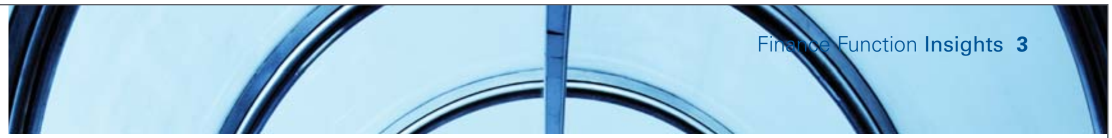

Tax risk oversight

EMERGES AS A KEY GOVERNANCE ISSUE

GREG WIEBE, MANAGING PARTNER, TAX, KPMG

Today's businesses face increasingly rigorous regulation and growing pressure from a variety of parties within and outside the company to demonstrate that they are well-run, responsible organizations.

The management of tax is now one of the criteria by which corporate governance is judged by investors and other third parties, such as regulators, the media, and especially the tax authorities. As a result, companies and their boards are being challenged to institute tax risk review procedures as a regular component of their enterprise risk management.

CFOs are much more accountable for tax matters within the company—from the accuracy of data in tax returns and reports through the company's effective tax rate, to the company's overall approach to how tax risk is managed. Finance leaders should team with their tax function to ensure that the right tax controls are in place and the company's tax risk strategy is in harmony with the rest of the business. As tax rises as an issue of corporate governance, boards and audit committees scrutinize tax more closely; consequently, finance leaders should be more hands-on in its management. The company's profitability and reputation can depend on it.

Around the world, tax authorities are promoting the idea that paying tax is a social responsibility and planning to reduce tax unduly is at odds with good citizenship. Unified by the Organisation for Economic Co-operation and Development's (OECD's) Forum of Tax Administrators, the Canada Revenue Agency (CRA), the Internal Revenue Service (IRS), and their counterparts are linking a company's approach to tax and its relations with tax collectors with the quality of its corporate governance. The tax authorities are also influencing governments to enact stricter laws against companies that are seen as shirking their civic duty through inappropriate tax plans.

Other countries are changing their laws in ways that treat tax as a corporate governance issue. In the United Kingdom, senior accounting officers of large companies must annually certify that their tax systems and controls are adequate, and they will be looking to their finance function for assurance. The United States will soon require companies to report uncertain tax positions in more detail on their financial statements and, in the future, directly to the IRS. Australia recently laid out a detailed tax risk management framework that socially responsible companies should adopt.

Canada appears to be following suit. In its 2010 budget, the federal government announced that it would release proposals for consultation requiring taxpayers to report "aggressive" tax planning transactions to the tax authorities. These proposals were released on May 7, 2010. Such rules are already in place in Quebec, and they could subject Canadian companies to harsh penalties, tougher tax assessment mechanisms, and new reporting rules for tax positions that push the envelope. Finance leaders should be aware of their company's tax planning activities to ensure they are in line with the company's overall attitude toward tax risk.

In enacting such laws, Canada and other countries are following the OECD Forum's general principles for good corporate governance and tax risk management. The Forum asserts that tax risk should be managed like any other enterprise risk. Businesses should have a CEO- and board-approved strategy for managing tax risk, and finance executives should ensure that standardized processes and controls are in place to support it. Based on a recent KPMG survey of tax directors, however, only 53 percent of Canadian respondents have global standards related to tax policies and only 30 percent have a board-approved policy for tax risk management.

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WHAT DOES SUSTAINABILITY have to do with the CFO?

PHIL LUDVIGSEN, DIRECTOR, CARBON ADVISORY SERVICES, KPMG

Until recently, the CFO was rarely brought into sustainability discussions. For many finance professionals, sustainability was viewed as a vague intersection of social, environmental, and economic concerns.

Although important to organizations that prided themselves on being socially responsible, responsibility for sustainability initiatives typically fell to corporate public relations, environmental health and safety departments, or even "green-oriented" marketing departments. Sometimes being seen as a sustainable organization was driven by a progressive CEO who wanted to do the right thing, while the CFO remained focused on managing the financial bottom line.

Today, with the monetization of carbon credits (greenhouse gas emission reductions), the emergence of socially responsible investing and lending requirements, increased focus on sustainable supply chains, as well as competitive green positioning, the CFO is increasingly called upon to help manage the organization’s “triple bottom line” that includes social, environmental, and economic impacts and outcomes.

> It seems time for a transformation in corporate reporting: from a focus on financial information to a concept where all types of relevant information for assessing and evaluating a company’s quality, performance, value, and impact are reported in a comprehensive way.
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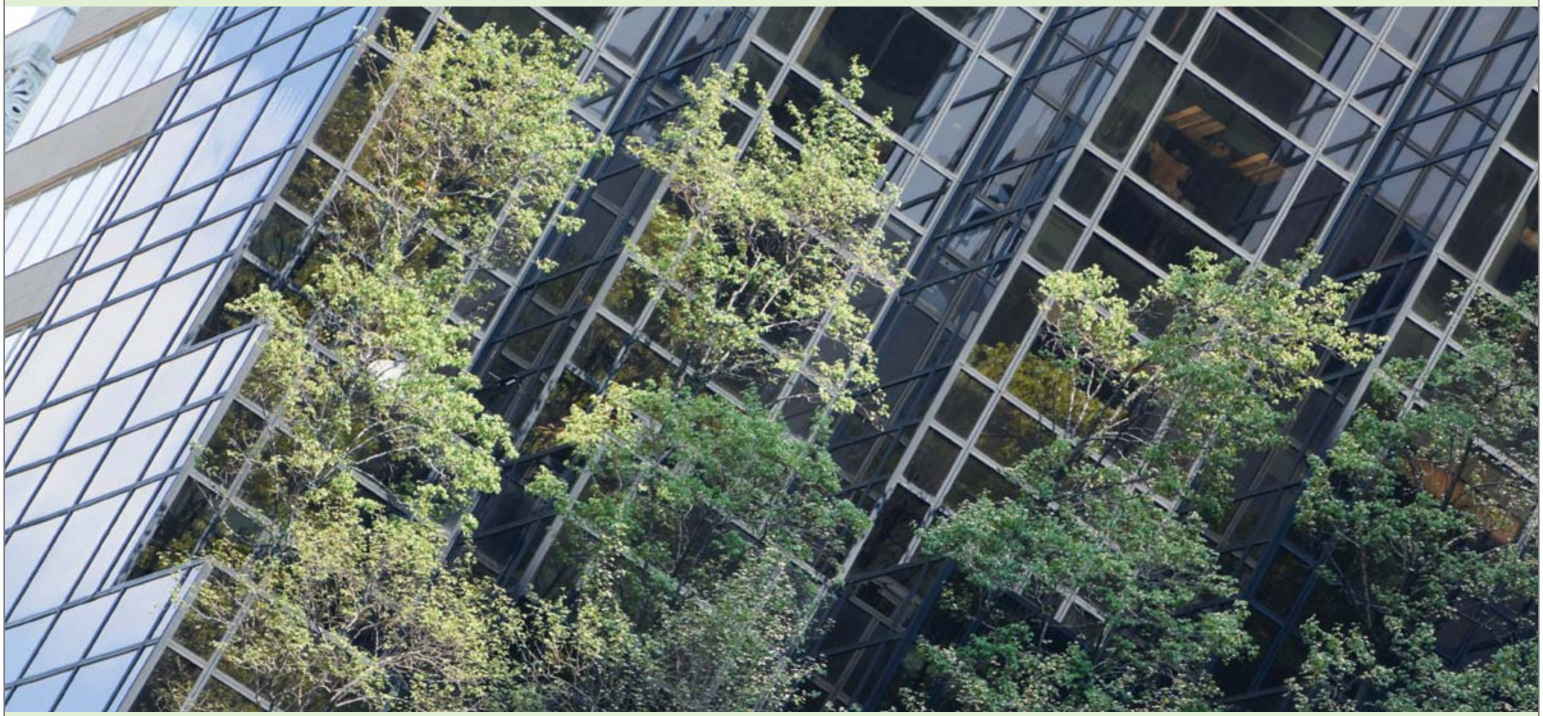
> Source: KPMG International, *Integrated Reporting: Closing the loop of strategy* (2010)

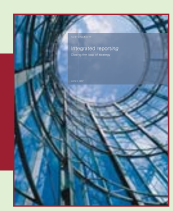


Key corporate stakeholders are setting these expectations; for example, socially responsible investors, such as the 435 signatories of the Carbon Disclosure Project, who collectively represent $64 trillion (yes, with a "t") of managed assets, expect a detailed reporting of a company's carbon footprint and an explanation of how climate-related risks and opportunities are being managed.

Perhaps your largest customers have just joined a consortium of "green buyers" who require your organization to have sustainability certification before they will even consider you as a Tier 1 supplier or business partner. International banks, such as Citi, Wells Fargo, Morgan Stanley, Credit Suisse, and Bank of America, have joined together to assess carbon-related risks in lending. And perhaps the most influential group in setting sustainability expectations is your employees. Many of your best and brightest talents expect your organization to walk the talk when it comes to sustainability. If you don't believe it, ask them!

Today's CFO should address these new expectations by broadening their existing information systems and teams to support extensive new reporting requirements. There are new regulations and guidance, associated green tax and carbon accounting implications—even the basic financial terminology is changing quickly. This is not so much a matter of changing sound business practices and controls, but significantly broadening them to integrate sustainability considerations. In less than 10 years' time, we will no doubt be in a world of fully integrated triple bottom-line reporting, including third-party assurance on many of these elements.

Read *Integrated Reporting: Closing the loop of strategy* online at www.kpmg.ca/sustainability.



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> The finance function of today is much more than the 'bean counter' of the past.
>
> Jochen Pampel, Global Head of Financial Management, KPMG International

Strategic advantage

THROUGH PEOPLE IN 2020

DAN ZBACNIK, NATIONAL LEADER, FINANCIAL MANAGEMENT ADVISORY SERVICES, KPMG

Business partnering is not just about forging strong relationships with the business; it's the support that finance provides the overall organization to allow for key decisions to be taken and help everyone contribute effectively to the control of the business.

Outsourcing, off-shoring, and increased automation have limited the traditional training ground of finance. Too few junior business partners are coming up through the finance ranks via a stint in general accounting or general ledger work before they venture into the wider commercial field. The move to migrate mid-office systems to shared service centres has only exacerbated this problem. Although some finance leaders may bemoan the loss of basic accounting skills, the result is staff with a less blinkered view of finance—forward-looking professionals who have stepped outside the box and can embrace new ways of doing things.

Finance, as a function, is reinventing itself. It recognizes the need to evolve alongside a business that has adapted to changing commercial and external pressures. 2020 finance leaders will need more than functional finance experience. Their primary role will be to identify and drive value-enhancing opportunities that have impact across the organization. They will understand the risk implications of their decisions in a dynamic business environment and an investment market that does not tolerate mistakes.

2020 capabilities: A winning combination

Strong commercial understanding and organizational savvy, together with great communications skills, can provide future finance professionals with license to operate as full-fledged business partners. With a strong eye on the numbers, the finance professional of 2020 thinks and acts like a business entrepreneur. Proactively working with the business, they consider the internal and external business environments. Applying their understanding of key issues and drivers across the industry, they identify potential opportunities and risks to the business. In short, the future finance professional is as much a strategist as an accountant.

Read *Finance of the Future: Looking forward to 2020* online at www.kpmg.ca/thriving.

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New THIS QUARTER

A quarterly round-up of our latest insights on issues in financial management and reporting.

Clouds in the Forecast: Canadian perspectives on the promise of cloud computing services for business

Cloud computing is one of today's most popular buzzwords, describing an à la carte menu of products and services—from unprecedented access to raw computing power, to potentially transformative full software solutions.

Cloud computing promises to change the way organizations use IT, but many decision-makers are struggling for clarity on what is achievable in practice. *Clouds in the Forecast* offers relevant insights and experiences to help address the following issues:

- Key business advantages of using cloud computing services
- Best and highest business uses of cloud-enabled capabilities
- Key business risks inherent in cloud-based environments
- Effective service level agreements, and techniques to mitigate vendor lock-in.

Cloud computing is likely to be a key part of many IT strategies in the next decade. For many Canadian organizations, migration to the cloud will be a journey involving case-by-case decisions along the way.

Read *Clouds in the Forecast* online at www.kpmg.ca/itadvisory.

Publications can be downloaded from our site: www.kpmg.ca/thriving. Print copies can also be requested from your local KPMG office.

You can automatically receive the latest KPMG insights on issues in financial management by subscribing to our e-mail list.

IN THE next issue

Getting the basics right

As finance functions seek to add greater value and assist the organization to reach its corporate goals, finance professionals should ensure that basic processes are both efficient and effective. These are the foundation to build on to gain credibility and acceptance from the organization that can enable the finance function to move forward. In our next issue, we will focus on techniques and tools to assist the CFO and other finance leaders with getting the basics right.

HOW KPMG can help

Through its global network of member firms, KPMG has access to more than 1,100 talented professionals dedicated to financial management, who share insights and experience on financial management matters to assist clients of all sizes.

Simply stated, we help finance leaders and finance organizations drive business value. We work with private and public sector clients to help ensure the integrity of finance processes and information delivered to key stakeholders.

We help clients tackle finance-specific issues while addressing larger mandates from the business via six broad categories of services:

- Finance Strategy
- Business Performance Management
- Business Intelligence
- Financial Reporting
- Finance Process Improvement
- Financial Talent Management Strategies.

We take a holistic view of the important connections between business goals, team skills and capabilities, critical behaviours, and cultural attributes.

Contact us

To discuss any of the issues or opportunities explored in this issue of *Finance Function Insights*, please contact your KPMG adviser or any of our Financial Management Advisory professionals:

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