



KPMG
International
Annual Review
2006

Rebuilding trust

KPMG INTERNATIONAL

Rebuilding trust

Business must work to regain the confidence of investors and the public, and professional services organizations such as KPMG have a critical role to play in this challenge. We assess the practical progress made in financial reporting and the immediate next steps required to rebuild trust.

Many factors must be addressed if the business community is to improve its public standing and strengthen relations with the investor community. The accounting profession takes its responsibilities very seriously and is helping to stimulate dialogue, support reform and make practical enhancements. For us at KPMG, a number of key areas require particular attention:

Better dialogue with investors

The vision statement published in 2006 by the CEOs of the six largest accountancy networks, to which KPMG contributed, underlines that much greater discussion on reform is required throughout the stakeholder community and we certainly welcome input on reporting and auditing from all sides. The needs of investors and other parties must be clearly understood and should influence the steps our profession and business take to improve what we do and how we do it.

Better financial reporting

Relevant, reliable financial information is essential to the health of the capital markets and there is a debate among investors, government, regulators, companies and advisers around how to enhance existing approaches. KPMG sees potential for improvement through greater:

- Consistency of information, which would be improved by convergence of financial standards around clear, principles-based and universally accepted standards for accounting and for auditing.
- Use of other relevant non-financial information which addresses corporate responsibility and long-term sustainability issues, without creating undue complexity of financial statements.
- Available information that provides stakeholders with a better understanding of long-term investment decisions.

Better standards

International Financial Reporting Standards (IFRS) was designed to enhance the quality and integrity of information available to investors, provide greater comparability between companies and provide a principles-based approach. IFRS became a tangible reality in 2006, with 7,000 companies using it for the first time. Tens of thousands of auditors in KPMG member firms met the enormous challenges involved.

Achieving convergence of accounting standards globally will inevitably take time. In the meantime everyone involved in the setting and interpretation of standards should work together to achieve greater consistency of standards and financial statements.

A full-page photograph of two rock climbers. One climber, wearing a yellow and blue jacket and a white helmet, is positioned higher on a dark, craggy rock face. The other climber, wearing a blue jacket and a blue helmet, is positioned lower and is reaching up to assist the first climber by holding their hand. The background is a hazy, overcast sky.

Independent oversight of auditors

Effective independent public regulation and oversight is fundamental to high standards and public reputation in our profession. One key area to improve is the duplication and complexity produced when regulatory jurisdictions overlap and differ, with companies caught between conflicting requirements.

We saw practical progress in 2006 with the decision by 18 independent audit regulatory bodies to form the International Forum of Independent Audit Regulators (IFIAR), which will support knowledge sharing, collaboration and communication between organizations involved in audit.

Addressing fraud

There continues to be much debate around the need to prevent and detect fraud and inappropriate behavior in the corporate world. While much progress has been made, including the strengthening of internal controls, internal control reporting and forensic reviews, more needs to be done on studying and recognizing the difficulties of identifying collusive fraud within the scope of a traditional audit. This is in an environment in which expectations appear to be increasing for directors and auditors to ensure that the systems are in place and processes exist to detect significant fraud, whether collusive or not.

Better governance

The integrity of the people and processes in auditing and reporting determines whether the numbers and judgments involved are accurate, fair and useful. Strong independent audit committees have proved an effective judge of quality and independence and are presenting a challenge to management, giving investors greater representation inside the companies they own.

Committees are enhancing their contribution and KPMG is supporting them through 19 Audit Committee Institutes, which provide thought leadership events and resources focused on enhancing effectiveness.

Current progress focuses on key challenges such as:

- **Expertise:** Do audit committee members have the expertise to understand the principles underpinning the preparation of financial statements, why critical accounting policies are chosen and how they are applied?
- **Diligence:** Are committee members prepared to invest the time necessary to understand their businesses and the substance of complex transactions, and to ensure that the accounts reflect their understanding.
- **Risk:** Should committees expand their responsibility beyond due diligence to provide checks and balances on management's decision-making in other vital areas, such as risk management?

For further information on the vision statement please visit www.globalpublicpolicysymposium.com

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

KPMG and the KPMG logo are registered trademarks of KPMG International, a Swiss cooperative.

© 2007 KPMG International. KPMG International is a Swiss cooperative. Member firms of the KPMG network of independent firms are affiliated with KPMG International. KPMG International provides no client services. No member firm has any authority to obligate or bind KPMG International or any other member firm vis-à-vis third parties, nor does KPMG International have any such authority to obligate or bind any member firm. All rights reserved.

Publication Name: KPMG International Annual Review 2006

Publication Number: 304980

Publication Date: January 2007