Quarterly reporting | vital or damaging?

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Richard F Chambers, president and CEO of IIA Global.

The European Union is poised to eliminate mandatory quarterly reporting for exchange-traded enterprises in November 2015 as part of the EU Transparency Directive – and the British government is expected to act sooner for companies on the London Exchange. I’ve considered the pros and cons of the directive from an internal audit perspective.

Reuters noted in an article on 5 January: “British reporting rule change exposes transatlantic cultural gap.” This “less-is-more” approach to financial reporting is diametrically opposed to the prevailing regulatory trends in the US, where the Sarbanes-Oxley Act of 2002 continues to make an impact.

I agree with economist John Kay, who chaired the review of UK equity markets and long-term decision-making that reported to the Secretary of State for Business, Innovation and Skills on 23 July 2012.

Kay contends that quarterly financial reports harm companies by creating a culture of short-termism – ie, the pressure to produce quarterly profits discourages investments yielding potentially greater or more sustainable benefits.

Proponents of quarterly reports generally cite accountability and transparency, which, somewhat ironically, Kay’s review was intended to support.

Having served on the Committee of Sponsoring Organisations of the Treadway Commission (COSO) during the recent update of its Internal Control, Integrated Framework, I am a staunch believer in accountability and transparency. I support recent discussions in the US about public companies moving from pass-fail external audits to more detailed and specific narratives. In addition, IIA Global last year formally endorsed the three lines of defence model for risk management.

So I’d be the last person to suggest we play fast and loose with financial accountability and risk reputational damage or a loss of shareholder confidence.

However, there are a couple of important factors we must keep in mind:
1. Quarterly financial statements are not audited.
2. Prior to 2007, exchange-traded enterprises in the UK were not required to file quarterly reports.

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Predictably, the elimination of mandatory quarterly reports has received most attention in the press. But I think it is important to consider the proposal within the context of the entire Kay review. In my reading, it calls for the holistic application of principle-centred leadership, based on stewardship of stakeholder assets, trust, respect and a dedication to long-term, sustainable and ethical value creation.

Kay’s reforms, taken as a whole, are very much in line with the IIA’s International Professional Practices Framework and our code of ethics. And though I’m sure there will be plenty of naysayers, particularly among the US investment community, I find the less-is-more approach refreshing.

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