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CFOs should avoid board positions

Agnes King

Chief financial officers should not hold board positions because "it's exceptionally difficult" to report to the chief executive on the numbers and sit as their equal around the boardroom table, three company directors told a G100 conference in Sydney on Tuesday.

"That's a balance I find very hard to keep," said Ken Dean, a director of Santos, Bluescope Steel and Energy Australia.

"The CFO should sit in the board meeting but not as a member of the board."

Jane Hemstrich, who sits on the board of Commonwealth Bank, Tabcorp, Santos and Lend Lease, said "one of the reasons Australian corporate governance is held in high regard globally is that we tend not to have a plethora of executive directors".

"Having the CFO as a director is a slippery slope," she said.

Australia Post chairman and AGL director, John Stanhope – who has found himself wearing both hats in his former career at Telstra – concedes it's a "hard role to play and better not to

cause that problem". But problems can be even worse when the CEO is chairman, said Mr Stanhope.

With the role of auditors and audit committees under increased scrutiny, the trio felt the relationship between CFO and audit committee chairman must be "friendly" but "a friendship that adds value by being critical" in order to be fruitful.

Mr Dean said audit committee chairs perform a crucial function as mentors to corporate CFOs. "It's difficult but essential. The CFO should be able to look to the audit committee chair not only as someone who understands their business, but as someone they can turn to sometime in the loneliness of being a CFO – someone outside of management you can talk to, confidentially, without any downside," he said.

He said on several occasions in his time as audit committee chair "that has been key to keeping issues in company on keel".

On the issue of whether audit and risk committees should be populated by the same individuals, the consensus was that both models work when



Left to right: Annette Kimmitt of Ernst & Young; Michael Bray of KPMG; Lynn Wood, from the Financial Reporting Council; Terry Bowen of Wesfarmers and Tanya Branwhite of Macquarie Securities Australia, at the 2013 National Congress of the Group of 100 in Sydney. PHOTO: LOUIE DOUVIS

applied appropriately. Ms Hemstrich said it largely depends on the size of the company, the industry and the extent to which compliance and financial matters are inextricably linked.

"On combined committees you have to deal with issues separately and the same people can do it," agreed Mr Dean. He cautioned, however, that while it's possible for boards to delegate things relating to audit committees, they must be totally across whatever processes are put in place for managing risk.

Ms Hemstrich said non-executive directors and chairs of the audit committees need to remember to whom their primary responsibility lies. "It's for the shareholders. Once you've got that clear in your mind, you can have a fruitful and friendly relationship with your CFO," she said.

Ms Hemstrich said on the tight-rope between becoming too chummy with the CFO or too adversarial, she would "rather err on the side of being too much in the CFO's corner than proving

how clever I am at the expense of the CFO and the company's well-researched point of view".

That also applies to balance in non-executive director's relationship with the head of internal and external audit, she said.

"[External auditors] are often an invaluable source of information of what's coming in the broader world and how people are treating things which you need to pay careful attention to."

Integrated reporting is inevitable and will be international

Comment

John Stanhope

Australia's current reporting framework was built on the 20th century premise that most of a company's value is on the balance sheet.

In an attempt to keep pace with the evolving complexity and competitiveness of global business while seeking to meet investor information requirements, regulators have added more requirements to already burgeoning corporate reporting. The challenge is to rethink the model used to convey corporate

value creation to the capital markets.

Integrated reporting can help to meet this challenge. It is a process through which an organisation communicates how it has created value to date, and how it will create value into the future. The integrated report cuts through the "noise" of current corporate reporting to focus on strategically material information required by shareholders in making their various investment decisions.

Professor Mervyn King and Paul Druckman, the chairman and CEO of the International Integrated Reporting Council, are in Australia to promote the IIRC's consultation draft on the international integrated reporting

framework. This is an important visit to discuss the draft framework with key stakeholders prior to finalisation in December, and also to work with government advisers on the agenda for the 2014 Group of 20 when Australia has the presidency.

However, in order to realise the full value of integrated reporting in the Australian context around the G20 agenda, the Australian government and the Australian Securities and Investments Commission must also take action to clarify how the business judgment rule would work in practice, and to include a safe harbour provision in the Corporations Act to encourage directors to

The integrated report cuts through the "noise" to focus on material information.

adopt integrated reporting.

In Australia, we are already able to prepare an integrated report as the operating and financial review in the director's report for public companies.

ASIC's regulatory guide to assist directors in drafting their reviews for June 2013 explains that under current laws, companies are already required

to provide much of the information required in an integrated report.

It is only a matter of time before integrated reporting is adopted globally.

The value integrated reporting can bring to a number of current global government, business and financial market issues makes it an appropriate inclusion to the G20 debate next year.

Directors and executives should start to improve external and internal reporting in line with ASIC's guide and the IIRC draft framework.

John Stanhope is a non-executive director and co-chair of the Australian Business Reporting Leaders Forum.

Computershare says work laws OK

Labour market

Shaun Drummond

Computershare chief executive Stuart Crosby said labour market flexibility has more to do with culture than regulation and aspects of Australia's industrial relations laws were better than in Canada or Europe.

The share registry company has sacked a third of its staff in each of the company's four biggest markets – the US, Britain, Australia and Canada – since 2008.

Mr Crosby said the layoffs were much more expensive to do in Canada although it hasn't been "dramatically easy or difficult" in the other jurisdictions.

"I think I may be about to be a bit of a heretic, and it may not make me popular with my peers, but honestly the employment law problems we



Stuart Crosby talks staff relations.

have are not in Australia, they are in other markets," he told *The Australian Financial Review* at the Group of 100 annual conference in Sydney on Tuesday.

In Canada, for instance, he said termination benefits were "horrendous". He also said there is no man-

datory retirement age, "so people will just hang on and you end up having to pay them two or three years' salary".

Continental Europe – particularly Germany, Italy and France – were also "horrendous in terms of managing a flexible workforce".

But he said the flexibility of the US workforce, so feted by business, has more to do with culture than regulation. "We have just laid off hundreds of people in Pittsburgh, but they all get up and move to Denver, to wherever the job is," Mr Crosby said.

However, in Germany, where Computershare has offices in Munich and Frankfurt, he said workers were much less willing to move to where the jobs are.

"If someone in Munich loses their job, they will not look at anything more than half an hour's tram ride from where they live."

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