



This harsh evaluation will discomfit today's cosy auditors.



Uncertain About Confidence

Professor Michael Mainelli

Politicians and regulators assure us that a lack of confidence impairs economic recovery. However, one area of internal and external compliance remains too confident after debacles since 2007, financial statements, which were proven far too optimistic for most major financial institutions. For any significant asset, we expect seven not-so-precise pieces of evidence: cost, ownership, disclosure, value, existence, responsibility and benefit (a fishy COD-VERB).

When would we know our financial system is working?

Yet despite the uncertainties, especially around value, accountants and auditors report a single, definite number, not a range. Long Finance is an initiative of several thousand financial services professionals addressing the question, "when would we know our financial system is working?" This initiative has proposed a different approach, using ranges rather than discrete values to represent key items on the profit & loss and balance sheet, Confidence Accounting.

This approach is gaining attention. Andy Haldane, Executive Director, Financial Stability at the Bank of England stated in December 2011, "For perhaps the first time, it ['Proposed Regulatory Prudent Valuation Return', published in December 2011] provides confidence intervals around banks' balance sheets – what some have called "confidence accounting". Such an approach has large implications for those of us providing financial information. First, a widespread discussion is needed, aimed at understanding the implications for management behaviour. Second, deep training is needed to move financial professionals from additive and subtractive book-keeping to more statistical approaches. Broader training

is also needed among other users of accounts so they understand the new approaches. Third, using ranges rather than numbers will strain information systems, which will need to encompass Monte Carlo modelling and richer presentations as a matter of course. Fourth, Confidence Accounting provides a comprehensive way to evaluate internal and external audits – were your stated results within the confidence intervals over time? This harsh evaluation will discomfit today's cosy auditors. The upshot? Hopefully a world more confident that compliance professionals, financial professionals and auditors are able to express their own uncertainties.

THE PRICE OF FISH



Professor Michael Mainelli
Executive Chairman of Z/Yen Group Limited,
is a scientist and accountant.

His book, "The Price of Fish: A New Approach to Wicked Economics and Better Decisions", co-authored with Ian Harris, introduces Confidence Accounting.



Speaking Engagements

After many years as senior international finance executive, Simon has evolved a number of challenging ideas and combined them with an in depth experience of a variety of control and compliance scenarios.



Bringing this together with his enthusiasm for sharing, Simon has created a portfolio of key presentations and is always keen to find time to speak at different events.

Typical topics are:

Overseas Expansion
- what could possibly go wrong?

Sarbanes Oxley - Does it really have to be this hard?

Comply or else - An alternative view on compliance.

Talks can range from 20 minutes to 90 minutes depending on the audience needs.



Contact EURO CFO now and have a chat about Simon speaking at one of your events.

+44(0) 1491 821 101