

Restoring Confidence in the Global Profession

Speech to The World Bank

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It is a real pleasure for me to speak to you on a subject that is important not only to members of the accountancy profession but to all of us who have a stake in the global economy. The International Federation of Accountants and The World Bank have a long and productive relationship. The World Bank was instrumental, nearly a decade ago, in the establishment of IFAC's International Public Sector Accounting Standards Program, which has produced, to date, 21 accrual-based international accounting standards for the public sector and a comprehensive cash-basis standard and now constitutes the benchmark for governmental financial reporting. And the Bank has been an active participant in the development of recent reforms designed to strengthen the auditing profession.

Since becoming President of the International Federation of Accountants (IFAC) in November 2004, I have had the opportunity to meet with international standard setters, regulators, business and government leaders, and representatives of international development and funding agencies.

IFAC, The World Bank, and other international agencies share a common goal: we are working internationally to promote growth and development throughout the world, and doing so in the public interest.

I am thankful for the support and involvement from The World Bank representatives who work directly with IFAC: Fayeazul Choudhury, who serves on the new Public Interest Oversight Board; John Hegarty, who serves on the Monitoring Group of regulators; and Tony Hegarty, who serves on our Developing Nations Permanent Task Force. I would also wish to mention the valuable role of Simon Bradbury, the Bank's Observer on the International Public Sector Accounting Standards Board, and Ron Points, the U.S. member on that Board and a former Bank employee.

Through its involvement with the Monitoring Group, The World Bank has been a key partner in implementing IFAC's Proposals for Reform, the most fundamental international regulatory change in IFAC's 28-year history. Having worked directly with Fayeaz, John and Tony, I am very much appreciative of their very dedicated and genuine commitment to working with the international accountancy profession, of being true IFAC partners in every sense of the word.

I am also grateful for The World Bank's involvement in two of our Consultative Advisory Groups – for the International Auditing and Assurance Standards Board and the IFAC Ethics Committee – two groups whose work is instrumental in influencing the quality of audit and accountancy practices worldwide.

It is through this support that IFAC is able to achieve its mission, which I will state for you now:

To serve the public interest, IFAC will continue to strengthen the worldwide accountancy profession and contribute to the development of strong international economies by establishing and promoting adherence to high-quality professional standards, furthering the international convergence of such standards and speaking out on public interest issues where the profession's expertise is most relevant.

Today, I would like to speak with you about how, together, we can continue to work to restore confidence in the global accountancy profession and, thereby, promote greater economic growth and stability worldwide. I say “continue to work to restore confidence” because I think we are on our way to building increased confidence in the profession and in the work that we deliver. My comments will touch on three key areas: first, the role of the International Federation of Accountants; second, what IFAC has been doing globally to enhance investor confidence and economic stability; and finally, I would like to discuss some of IFAC’s initiatives to contribute to the development of the profession and of economies worldwide.

The International Federation of Accountants is the global organization for the accountancy profession, representing 2.5 million accountants through our 163 member organizations in 119 countries. Many of our constituents are located in the developing world. To achieve our mission, we are focused on building relationships with external partners, such as The World Bank, the United Nations Conference on Trade and Development and other international organizations, and on leveraging the strengths of

IFAC member bodies and the many volunteers who serve on IFAC boards, committees and task forces. These groups are set up to tackle proactively the technical, ethical and emerging issues facing global business today.

Because we are a global organization, and because it is predicted that 95% of the world's population growth will occur in developing nations, we have made strengthening the profession in those nations a key objective. Our position is this: we have a fundamental role and responsibility to play in fostering progress in the developing world, in eradicating poverty and in building prosperity. You are the development experts, we are business experts. Much can be accomplished by us working together.

Before I return to IFAC's work in the developing world, I would like briefly to describe for you some of the global initiatives which we have undertaken in the past several years. IFAC is helping the global accountancy profession to meet its public interest responsibilities and to contribute to economic growth and stability by focusing on three critical areas:

- Emphasizing the importance of ethics in all that we do;
- Developing high quality international standards and promoting convergence to these standards; and
- Supporting organizational performance.

The public rightly expects that the accountancy profession will act with professionalism and with integrity. Even as the Enron and WorldCom situations were unfolding, IFAC

commissioned an independent group, the Task Force on Rebuilding Public Confidence in Financial Reporting, Chaired by John Crow, former Governor of the Bank of Canada and former chair of the G10 group of central banks, and of which Olivia Kirtley, a former Chair of the AICPA, and I were members, to propose solutions for the crisis in confidence in financial reporting. The Task Force's report, issued in July 2003, addressed not only the roles of accountants and auditors, but also the roles of boards of directors, management, standard setters and regulators. It brought an international perspective to bear on critical issues that were being considered in a number of countries, and included some important, lasting recommendations, many of which have been acted upon within various jurisdictions. The key theme that emerged from this report was that the systemic credibility of global financial reporting depends on the ethics and integrity of all who participate in that system.

The IFAC Code of Ethics for Professional Accountants goes even further. The Code, which applies to all profession accountants worldwide, whether they are in the public sector or private sector, whether professional accountants in business or in practice, whether working in developed or in developing countries, is the most rigorous international ethical guidance ever issued. It is based on three crucial values for all professional accountants: values of integrity, transparency and expertise. Over the years, our Ethics Committee has strengthened its rules on independence and is currently revisiting them in the light of recent marketplace changes. It works to strengthen the Code in other ways as well. At its June 2005 meeting, the committee plans to approve a revised Code that will clarify the definition of a network firm and

provide more guidance for professional accountants in business to assist them when discovering or suspecting fraud. Meanwhile, IFAC's Professional Accountants in Business Committee is in the process of developing guidance on the implementation of corporate codes of conduct; this document should be released by the end of the year.

In addition to its focus on ethics, IFAC manifests its commitment to serve the public interest in other significant ways. In November 2003 we launched the most fundamental reforms to the international accountancy profession in the history of IFAC – reforms that were developed by IFAC with the input and support of regulators and of international organizations like The World Bank. The reforms included the commitment to strengthen IFAC standard-setting processes and to create a Public Interest Oversight Board. In February of this year, the international Public Interest Oversight Board, or PIOB, was formally established.

The PIOB, comprised of nominees of regulatory bodies and international organizations such as The World Bank, has a threefold focus: (1) strengthening the standard-setting processes of IFAC's Public Interest Activity Committees – the International Auditing and Assurance Standards Board, the Education Committee, and the Ethics Committee; (2) enhancing the transparency of those processes; and (3) providing for public interest oversight.

In addition to overseeing IFAC auditing and assurance, ethics, and education standard-setting activities, the PIOB also oversees the IFAC Member Body Compliance Program

– another key initiative designed to protect the public interest. This program supports the development of high quality auditing, accounting, ethical, educational and related quality assurance and disciplinary standards in IFAC member bodies throughout the world. The program is intended to guide accounting institutes in the full spectrum of their professional responsibilities, to demonstrate a shared commitment to our profession's values of integrity, transparency and expertise.

Phase 1 of the Compliance Program, a fact-based questionnaire to assess the regulatory and standard-setting frameworks of IFAC member bodies, is now complete, and responses are being posted on IFAC's website. To date, fifty responses have been posted. Later this year, we will begin Phase 2 of the program, the member body self-assessment, in which our member organizations will verify that they comply with membership criteria, such as continuing professional development. Where members are not in compliance, we will work with those member bodies to develop action plans in order that they may move towards compliance and, again, their status will be posted on the IFAC website.

IFAC's Member Body Compliance Program, like The World Bank's Reports on the Observance of Standards and Codes (ROSC), is designed to support international development by gathering information about the national regulatory and standard-setting frameworks that are in place and by setting out and implementing plans of action to achieve necessary improvements. For IFAC, the Compliance Program is an

important first step in encouraging and facilitating convergence to international standards.

High quality standards of financial reporting, auditing and ethics underpin the trust that investors place in financial and non-financial information alike and thus, facilitate investment and play an integral role in contributing to both economic growth and stability.

Momentum is already building in the direction of global standards, but we need to maintain and grow that momentum. The IAASB is providing a leadership role as it addresses some of the challenges to convergence, such as strengthening its due processes, facilitating translations and enhancing the clarity of its standards. We are also supporting efforts by the International Accounting Standards Board to ensure that accounting and auditing standards are converged as soon as is practicable.

I firmly believe that having a multiplicity of accounting, auditing and other standards around the world is against the public interest. It creates confusion, encourages error and facilitates fraud. The cure for those ills is to have a single set of international standards, of the highest quality, set in the public interest by an international expert body which transparently consults with, and recognizes the legitimate interests of, the international community. The IAASB, the IFAC Education and Ethics Committees and our International Public Sector Accounting Standards Board develop standards that do meet these requirements. They ensure that there is a great deal of public input in the

process, by exposing their draft standards for public comment, by having public members serve on their committees and by having consultative advisory groups that comment on their projects and priorities.

Public input also helps our standard-setting groups to identify the issues that have the greatest public interest ramifications. Consideration of the public interest is a key driver in prioritizing the work of our committees and boards. For example, at its most recent meeting in March, the IAASB approved four exposure drafts proposing new guidance designed to enhance the quality of group financial statement audits, independent auditor reports, and communications between auditors and those charged with governance – all critical issues today.

My belief, and one of IFAC's founding principles, is that auditing and accounting standards worldwide need to be converged. Why? First, globalization demands high-quality standards that can be applied from Madrid to Manila, from New York to Nairobi. Everyone should be on a level playing field.

Second, global standards will result in increased transparency and accountability. I also believe that developing countries that adopt international standards will see increased outside investment in their economies, by institutional and retail investors who are familiar with, and confident in, the standards, regardless of geography.

Through all these initiatives, IFAC's leadership has communicated and consulted extensively, with both national and international stakeholders, to ensure that we get the balance right. In keeping with our mandate, we have sought to take a leadership role on behalf of the profession in the public interest worldwide.

Transparency is key to how we operate. The IAASB is one of the most transparent standard setters in the world. IAASB meetings are open to the public and agenda papers, background documents and meeting summaries are posted on the IFAC website. Anyone can download IAASB draft auditing standards, view all comments made on those drafts by regulators, firms, standard setters and others, and make their own comments. Audio recordings of the proceedings of the IAASB are also able to be downloaded from the website. IFAC's Ethics and Education Committees operate in a similarly transparent manner.

IFAC is not just about setting standards and asking people to live up to those standards. Increasingly, we are turning our attention to the question of how best to improve the performance of organizations, and thus ensure wider prosperity for all.

In 2004, our Professional Accountants in Business Committee, working with The Chartered Institute of Management Accountants (CIMA), issued a report on corporate governance best practices entitled, *Enterprise Governance – Getting the Balance Right*. The joint group conducted an in-depth analysis of corporate successes and failures in 27 case studies from 10 countries. Among the report's findings were that there are four

key determinants of corporate success and failure: the culture and tone at the top, the chief executive, the board of directors, and the internal control system.

The report also revealed that good governance on its own cannot make a company successful. Companies need to balance conformance with performance. To quote: “Unlike the conformance dimension, there are no dedicated oversight mechanisms, such as audit committees, in the arena of strategy. There is a danger that in the laudable attempt to improve standards of control and ethics, insufficient attention is paid to the need for companies to create wealth and to ensure that they are pursuing the right strategies to achieve this.”

The study examined the concept of ‘enterprise governance.’ Enterprise governance has two equal parts: probity and profitability. I would suggest that one without the other isn’t worth having. Businesses that have the highest ideals, but go bankrupt through poor strategic choices, are as disastrous to shareholders, to other stakeholders and to public confidence as are businesses that fail because of ethical lapses.

At the same time, a profitable business that is managed and overseen with little regard for the public interest, the law, regulations, employees or shareholders should not be in business and, ultimately, will not be in business. Ethical conduct lies at the core of all business. We do business with those we trust; we get business from those who trust us.

Of course, this concept does not apply only to the private sector, to industry and to for-profit organizations. Instinctively, we who work for international organizations, national governments and agencies, and non-governmental organizations understand that we need to have integrity in all that we do, while at the same time making wise strategic choices that ensure organizational success. Indeed, we do want to succeed, but we want to do so with integrity.

I would like to turn your attention now to IFAC's work with, and inside, developing countries.

It is no secret that many developing nations face challenges, both economic and political, that are preventing them from reaching their full potential. Challenges such as corruption, poverty and lack of funding create real barriers for growth and for development.

Commentators like *New York Times'* commentator Thomas Friedman and Professor Niall Ferguson, a Professor of Political and Financial History at Stanford and before that Oxford University, have stressed the importance of institutions to developing countries. This is now widely accepted. In addition to strong political institutions and a free media, these institutions include fair judicial systems, securities regulations, property rights, and respect for the rule of law. Economically, the reasons these institutions are so important is that once they are in place they make a country attractive to potential investment, while governments can secure loans at lower interest rates. More people are employed

and poverty rates decline, while government has more to spend on key services such as health, education, energy and water.

People need institutions that they can count on. Unfortunately, these institutions take time to develop. While it is tempting to want to hurry ahead with other symbols of progress, long-term stability is often dependent on the establishment of these basic institutions. Otherwise, the foundation of growth is built on shifting sand and can be washed away with a single tide.

This is where the accountancy profession comes in. Our profession is built upon and committed to sustainability and stability, consistency and credibility, and independence and integrity.

As IFAC leads the movement towards global standards, we have a clear responsibility to consider and accommodate the needs of developing economies. It is a responsibility which we take very seriously indeed. Our Developing Nations Permanent Task Force ensures that international standard-setting bodies are made aware of, and give consideration to, issues from an emerging economy perspective. This past March, IFAC held its first Consultative Conference, which focused on the needs of developing countries and small- and medium-sized accounting practices. The conference was attended by representatives of IFAC member bodies, regional accountancy organizations, the development community and international organizations, including Tony Hegarty of The World Bank. The conference provided further direction to IFAC on

how we can best meet the needs of developing nations and provided recommendations that were endorsed by the IFAC Board when it met later that month in South Africa.

On one point we are clear: we cannot develop a “one-size-fits-all” approach to development. We must be responsive to local conditions and environments. Our major area of focus in developing nations is building a responsible accountancy profession and supporting the development of a financial infrastructure within which the profession will operate. Our Developing Nations Permanent Task Force is identifying the specific countries it will begin to work with, to assist those countries where there is no established profession, and those that have only begun to build the professional, financial and regulatory architecture necessary to support economic growth.

At the same time, we need to continue to reinforce the need for international standards that can be effectively implemented in developing nations, particularly by small- and medium-sized companies. And we need to assist the profession in developing nations in terms of their capacity, environment and resources. Our ultimate objective is that there will be a recognized IFAC member body in every country. This can be accomplished partly by accountancy institutes in more developed countries acting as mentors to those in developing countries. Our plan is also to create a tool kit that clearly delineates the steps involved in establishing a viable and high quality accountancy profession.

Establishing the accountancy profession globally and achieving international convergence is not something we can do alone. In addition to The World Bank and

UNCTAD, we are also working with groups such as the Financial Stability Forum and Asia-Pacific Economic Cooperation, as well as with national regulators. And at the last IFAC Board meeting, representatives of NEPAD, the New Partnership for Africa's Development, as well as the South African Finance Minister, and member of the Commission for Africa, Trevor Manuel, provided us with valuable insights into how we can continue to support growth and development throughout the world.

Together, we must collaborate and coordinate capacity building efforts with governments, regulators, and others to ensure efficiency and effectiveness. We must assist developing and emerging economies in creating *achievable* action plans for developing the accountancy profession. IFAC has a program in place to do just this -- our Member Body Compliance Program, which I have already mentioned and which is designed to assist countries in to meet the specific criteria and standards which are vital to the development of a sound, proficient and accountable profession.

Clearly, these efforts cannot be short-term. The international accountancy profession and governments, regulators, standard setters, and donor agencies must all make an ongoing and long-term commitment to development. This is, indeed, the best way to build and maintain confidence in the global profession. We intend to embed our values of integrity, transparency and expertise within the profession of every developing country. In an era of quickening globalization, not to do so would put the economies of both developed and developing nations at risk.

We have a great commitment to the developing world, and have made it an organizational and profession-wide objective to be part of the solution. We are not by any means the whole solution, but we can be an important component of it. Where our values and programs take root, there is the potential, if nurtured, for something strong and lasting to take hold, a solid base on which future growth can take place. The benefits will branch and flower in other areas of society too. Sound institutions and strong economies go hand in hand with governments that are accountable and stable; with higher individual standards of living; and with lives of dignity and of opportunity.

All of us here, working together, can help to generate economic growth and stability worldwide. Working together, we can improve access to education, to health, to basic utilities. We can make a meaningful contribution to fighting poverty. Let us join together and deliver together a better world for all.

Thank you very much for your attention.