

Global overseer of auditing rules is born

Financial regulators have announced creation of an 8-member international board to oversee the setting of auditing standards. But the board called Public Interest Oversight Board (PIOB), which was announced at a global meeting in Paris recently, will not have the power to inspect whether auditing standards are being effectively administered, leaving that to national regulatory bodies.

The PIOB has come in existence in the wake of accounting scandals in many countries, scandals that in some cases exposed what appeared to be poor auditing procedures.

“For a long time, the accounting profession and the auditing profession were regulating themselves,” the chairman of the new board, Stavros Thomadakis, said. “This is not really a regulatory organization. It is put together to establish public interest oversight of auditing standards,” added Mr Thomadakis, who is Professor of Finance at the University of Athens and former Chairman of the Hellenic Capital Market Commission.

“Public oversight is critical to building credibility and confidence in international standards. This, in turn, contributes to confidence in the financial information produced by companies; in the examinations carried out by their auditors; and, ultimately, in the capital markets that rely on such information,” said IFAC President Graham Ward.

The PIOB members include seven individuals nomi-

nated by the International Organization of Securities Commissions, the Basel Committee on Banking Supervision, the International Association of Insurance Supervisors, the World Bank; and one selected by those organizations, from individuals nominated by IFAC.

The board members include Aulana L. Peters (former member of the S.E.C), Antoine Bracchi, President of the French accounting regulator Conseil National de la Comptabilité, David A. Brown, the Chairman of the Ontario Securities Commission in Canada; Fayezul Choudhury, Vice President and controller of the World Bank; Michael Hafeman, former assistant superintendent for financial institutions in Canada, Kosuke Nakahira, former Vice Minister for finance in Japan, and Arnold Schilder, Executive Director of De Nederlandsche Bank, the Dutch central bank.

Traditionally, auditing standards were set by groups of auditors, with little oversight from governments. The International Auditing and Assurance Standards Board, a unit of the International Federation of Accountants (IFAC), will continue to do the work, but the new board will oversee the process and have a veto over appointments to that group.

IFAC has welcomed the formal appointment of the PIOB, which will actually oversee IFAC’s auditing and assurance, ethics, and education standard-setting activities as well as the IFAC Member Body Compliance Program. (Source: Websites of IFAC, AICPA, ICAEW)

Changes in GAAP for Private Companies mooted

A task force comprising key constituents of US private company financial reporting has unanimously recommended that a process be established to evaluate potential changes to Generally Accepted Accounting Principles (GAAP) in order to improve the usefulness of private company financial reporting. The task force was sponsored by American Institute of Certified Public Accountants (AICPA), based its conclusions on the inputs of more than 3,700 business owners, public

accounting practitioners, financial managers, lenders, investors, and sureties.

The task force headed by former AICPA chair James G. Castellano had begun its work in early 2004 in response to concerns expressed by interested parties about the relevance, benefits, and related cost of certain financial reporting requirements for privately held, for-profit entities. These private companies represent over 99 percent of the US’ incorporated businesses.

“Overall, the survey respondents rated the value of GAAP financial statements of private

companies quite highly on consistency, providing comparability among companies, and on their use as a tool in credit and investment decisions...“however, we (also) learned that constituents rated certain GAAP requirements as providing relatively low relevance and decision usefulness to constituents of private company financial reporting,” says Mr. Castellano.

The FAF and FASB neither endorse nor reject the task force’s conclusions. A complete copy of the task force report can be found at: (http://www.aicpa.org/members/div/acctstd/pvtco_fincl_reprt/index.htm)

AICPA finds Information Security as top tech issue

For the third consecutive year, Information Security is the US' number one technology concern, according to the results of the 2005 Top Technologies survey of the American Institute of Certified Public Accountants.

The survey, conducted annually since 1990, seeks to determine the 10 most important technology issues for the coming year. Interestingly, Spam Technology – an issue closely associated with Information Security – apparently has lost some currency. It made its debut on the 2004 list at number two. On the new list, it falls to number four.

A different issue closely allied with Information Security – Electronic Data Management or the Paperless Office – moved up to second place. It was number three last year. There are two debuts on the Top Technologies list: Authentication Technologies and Storage Technologies. Another issue, Learning and Training Competency, reappears at number 10 after an absence of three years.

The following are the 2005 Top 10 Technologies:

1. Information Security
2. Paperless or less-paper office
3. Data Integration
4. Spam Technology
5. Disaster Recovery
6. Collaboration and Messaging Applications
7. Wireless Technologies
8. Authentication Technologies
9. Storage Technologies
10. Learning and Training Competency

2005 Emerging Technologies

Each year, the AICPA Top Technologies Task Force prepares a “watch list” of five emerging technologies that may not have viable commercial acceptance currently, but show promise in the next 24-36 months as having a potential impact on businesses and individuals.

1. RFID (Radio Frequency Identification)
2. Search
3. Fuel Cells
4. Digital Home
5. Display Technology

More details are available at <http://www.aicpa.org/infotech/technologies/toptechs.htm>.

ICAEW Open Standard to “liberate accountants”

The ICAEW IT Faculty in association with Digita and other leading software suppliers, has come out with the first draft of an Open Standard which, say the experts, may bring a software revolution for accountants. The standard uses XML (eXtensible Mark-up Language).

This is the part of the ICAEW-initiated efforts to bring in better integration of accountancy practice software.

Simon Hurst, the ICAEW IT Faculty's Chairman says it will enable thousands of accountancy firms to extract even more value from their computer systems. “This should be of great advantage to the firms and their clients as well as to the suppliers themselves”.

According to Digita, when accountants realise that it isn't necessary to be locked-in to a single system, and that they can vastly improve the service they offer to their clients, without the trauma and cost of wholesale switching of soft-

ware, there will be a revolution in software development.

The participants in the group that is working on the better integration of accountancy practice software include: APS, CCH, Digita, Finapps, IRIS, MYOB, Practice Engine, Sage and Star Computers.

IFAC mulls governmental social policy obligations

Accounting for social policy obligations has long confounded the preparers and users of governmental financial reports. The controversy currently surrounding the gargantuan obligations of the Social Security Administration is an example of the difficulties of dealing with long-term, big-number obligations of vaguely defined liability.

The International Public Sector Accounting Standards Board of IFAC has begun to deal with this thorny issue. Comments on a discussion memorandum have come in from around the world, and the board hopes to issue a proposed standard within the next year or so.

The memorandum also relates to GASB's project on its conceptual framework. The board is now struggling with a definition of “liability,” and the answer is far from obvious, especially for a “non-exchange transaction” such as the typical social policy benefit, including Social Security.

As social policy obligations can constitute more than half of a national government's budget, the numbers are huge. The eventual IPSASB standard will have a proportionately huge impact on the world economy. The impact will be especially hard-felt in European countries that are especially generous in their obligations to citizens. ■