

The Global Challenges and Increasing Expectations from the Accountancy Profession



The global economy is emerging from a crisis that has tested the international financial system to its limits. The most critical phase of the crisis may have passed, but recovery remains fragile, and the impact continues to be felt around the world. As we struggle with the causes, the lessons to be learnt, and what steps should be taken to avoid a future crisis — what does this mean for the accountancy profession, its members, and their ever-evolving role? In this article, the author attempts to answer this question and analyses the global challenges and the increasing expectations from the accountancy profession from the perspective of International Federation of Accountants.

Much has been written and many questions posed as to what role the accountancy profession played in the events leading up to the crisis. To what extent did improper, fraudulent, or inadequate financial reporting have a role in the crisis? What were the expectations of accountants and auditors, how realistic were they, and how have they changed? How has the reputation of the accountancy profession been impacted and what steps should be taken to repair it?

While the role of the professional accountant may change post-crisis, the ethical responsibilities remain the same. Whether public or private sector based, the responsibility of the accountant to uphold applicable principles, standards and laws — while never underrated — is more paramount post-crisis than ever before.

IFAC: Building Trust and Accountability

The global accountancy profession must strive to be seen as a valued leader in the development of strong and sustainable organisations, governments, financial markets, and economies. As the global organisation of the accountancy profession, IFAC works to promote the value of professional accountants world wide. Today's global economic landscape means an increasing role for IFAC to build an enhanced level of awareness of the value of the profession, and how accountants serve the public interest.



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In addition, it is more vital post-crisis that we engage policy makers, G-20 leaders, and others to pursue global financial stability. The need for sound, stable, and consistent financial reporting is urgent. The accountancy profession is better positioned today to take a leadership role in this process.

The Importance of International Standards

A fundamental way to protect the public interest is to develop, promote, and enforce internationally recognised standards as a means of ensuring the credibility of information upon which investors and other stakeholders depend. The adoption and implementation of high-quality accounting and auditing standards is an important step in that direction.

The International Standards on Auditing (ISAs) provide the standards by which the auditor examines a company's financial statements and judges whether they can be relied upon by investors, capital market participants, and policymakers with "reasonable assurance" that they are a true picture of the company's finances. They help ensure that clear and transparent financial information is produced, and facilitate the comparison of financial information, reinforce investors' confidence, attract investment and further support economic growth. The standards are developed through a rigorous due process by the International Auditing and Assurance Standards Board (IAASB), with input from national standard setters, IFAC member bodies and regional organisations, the general public, and many others.

The ISAs have been adopted by over 100 countries and also have the endorsement of IOSCO (the International Organisations of Securities Commissions), which has encouraged securities regulators to accept audits performed in accordance with the clarified ISAs as a step toward worldwide adoption of a set of high-quality auditing standards.

The Code of Ethics

Another important type of international standards is the *International Code of Ethics for Accountants*, which stands as an assurance of the behaviour of the accountant.

Developed by the International Ethics Standards Board for Accountants, the Code of Ethics sets out standards of integrity, objectivity, professional competence and due care, confidentiality of information, and professional behaviour regarding compliance with relevant laws and regulations.

All 164 member bodies of IFAC must commit to adopt the Code for their members — whether in public practice, in business, education, or the public

sector — and no member body or firm issuing reports in accordance with ISAs is allowed to apply less stringent standards than those stated in the Code.

And, while independence is not an issue, the Code of Ethics covers not only auditors but also accountants in business and the public sector, who are held to the same high standards of integrity, professional competence, and professional behaviour, just to name a few.

A new version of the Code of Ethics was published last year — clarifying requirements for all professional accountants and significantly strengthening the independence requirements of auditors, in order to increase the level of trust that investors demand in the wake of the global economic crisis.

Public Sector Accounting Responsibility

Over the past several years, government finance has been at the centre of much policy debate. More often than not, the accounting standards used by governments have proven inadequate. Poor financial management has consequences: it reduces efficiency and effectiveness, and can lead to tax increases and spending reductions, and can cause governments to fail to meet their commitments — not only today, but in the future also.

It is critical for government bodies to have standards to deal with recognition, measurement, presentation and disclosure requirements, as well as to provide transparency and accountability and to fight corruption. Strong accrual accounting standards are vital in enhancing government financial reporting and accountability; they are a fundamental tenet of solid accounting and reporting for public companies, and should be for governments as well.

The International Public Sector Accounting Standards Board (IPSASB) has developed guidelines for modifying International Financial Reporting Standards for application by public sector entities, and also addresses public sector financial reporting issues that have not been comprehensively or appropriately dealt with in existing standards, or where there is no related standard. The International Public Sector Accounting Standards (IPSASs) are designed to be used in preparing general purpose financial statements

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of public sector entities, including national, regional, and local governments.

Over 65 countries are currently using or are in the process of adopting or incorporating the IPSASs. In addition, many other governments already use accrual accounting and apply standards that are broadly consistent with IPSAS requirements.

I am very pleased that India has recognised the value of these international standards. In 2005, the Indian Parliament made a commitment that all government entities (those business enterprises in which the government has the majority stake) would move toward accrual accounting. Today, government entities are in the process of implementing a single cash-basis standard, which includes aspects of the IPSASB's cash-basis standard. In June of this year, there is a conference scheduled to discuss the move to accrual accounting, and the next steps necessary to implement the transition as quickly as possible.

The Importance of SMEs

Another area of importance is small-and-medium-sized entities (SMEs), and the small and medium practices (SMPs) that support them. We need to nourish these two sectors, since they are engines for growth and employment, and vital to the sustainability of economic development — and, indeed, a significant sector in India. These businesses have a more difficult time obtaining capital and credit, have fewer resources, and can find it challenging to meet regulatory and compliance requirements in a cost-effective way.

To help support them, IFAC maintains the International Centre for Small and Medium Practices, which provides resources and facilitates the exchange of knowledge and best practices among SMPs. It

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also works to ensure the needs of the SMP sector are considered by standard setters, and speaks out on behalf of SMPs to raise awareness of their value and the importance of the small business sector overall. Finally, it develops free guidance and tools, including the *ISA Guide for Small and Medium Audits and the Quality Control Guide for SMPs* — two very important implementation resources.

As we emerge from the global finance crisis, and work to re-ignite economic growth in all areas of the world, our focus on SMPs and SMEs is of critical importance.

The Need for Innovation

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Social responsibility, environmental preservation, and the overall sustainability of global civilisation are critical not only for today, but for the benefit of generations to come. The creation of a globally accepted framework that brings together financial, environmental, social, and governance information in a clear, concise, consistent, and comparable format is the core objective of the International Integrated Reporting Committee, in which the accountancy profession is a key player. This group brings together a cross section of representatives from the corporate, accounting, securities, regulatory, NGO, and standard-setting sectors, and will assist in the development of more comprehensive and comprehensible information about an organisation's total performance.

The world is changing. And our profession must change with it. Our aim is to enhance the relevance of the profession in order to meet expectations in a changing world.

IFAC continues to advance its vision that the global accountancy profession be recognised as a valued leader in the development of strong and sustainable organisations, financial markets, and economies. We will continue to support adoption and implementation of international standards. We will continue to speak out about the importance of high-quality financial information for building and maintaining stable financial markets worldwide. And we will continue to stress the important contributions of the accountancy profession in preparing and assuring this high-quality information.

To be sure, these are challenging times. I strongly believe that the global accountancy profession can meet — and exceed — the challenges and increasing expectations ahead of it. ■