

## India in Best Position to Contribute to Global Convergence Process: IFAC President

In an exclusive interview, the new president of International Federation of Accountants (IFAC), Juan Jose Fermin del Valle, tells the ICAI President CA. T.N. Manoharan about his agenda for the future and shares his vision on a range of issues including IFAC reforms, the challenges before accounting profession, convergence and Indian Chartered Accountants in global perspective.

**Q. IFAC has made remarkable efforts to strengthen the accountancy profession globally in recent years. What is your agenda for the future as the new IFAC President? What will be your primary goal?**

**A.** Indeed, there are two areas that we must concentrate on with a shared decisiveness and commitment: On the one hand, we should continue to work steadfastly on strengthening public confidence in the profession and in IFAC. On the other hand, we should encourage innovation and flexibility so that our profession can readily respond to the future demands that society is placing on it.

As we look ahead, I believe that public confidence in our profession and in IFAC's work can and will be strengthened if IFAC, with the support of regional accountancy organisations and its member bodies, such as the Institute of Chartered Accountants of India, remains focused on our current four key initiatives:

- Standard setting;
- The Member Body Compliance Program;
- The development of the profession worldwide; and
- Being the global voice of the profession.

As a profession, we also must be willing to move

ahead, to work together and to collaborate in new areas to build a better future. We should keep looking to our markets, from the perspectives of both our members working in organisations and those in public practice. We must, together, continue to identify and to design more efficient ways to deliver our services and to develop new services that better respond to the changing demands of the market.

We need to be prepared to provide relevant services within the new technology environment, for example, by taking a leadership role in the preparation and assurance of non-financial information.

**Q. The IFAC Council recently approved an updated Strategic Plan for the years 2007-2010. What are its highlights and main objectives?**

**A.** We have identified five strategic themes in our plan:

- Be recognised as the international standard setter in the areas of auditing and assurance, education, ethics and governmental financial reporting;
- Sustainability of the profession;
- Be the international voice of the accountancy profession;



Mr. Fermín del Valle of Argentina, who assumed the Presidency of IFAC on November 10, 2006, will serve a two-year term as President. He had been serving as IFAC Deputy President from November 2004 to November 2006, and as a member of the IFAC Board beginning in October 1997. He has been keenly associated with the advancement of the IFAC reforms designed to strengthen audit quality worldwide.

- Achieve greater value for the public through enhancing collaborative efforts; and
- Continue to enhance IFAC's governance.

The first three themes reflect the key strategies of the organisation. The last two are the approaches IFAC will implement to ensure the fulfilment of these key strategies. All of the objectives included in the plan are relevant and interrelated. However, I believe that the following are those that I would highlight as special priorities:

- Build confidence in IFAC's standard setting activities within the global regulatory community and other key constituencies;
- Contribute to improving the applicability of standards to the SME/SMP marketplace;
- Contribute to the development of the global profession by supporting the growth of strong professional accountancy organisations around the world;
- Better understand and shape society's expectations of the profession;
- Enhance the attractiveness of the profession;
- Align effort and investments to achieve synergy and efficiency, with and among member bodies; and
- Identify opportunities for greater participation in IFAC activities by member bodies.

**Q. You have been actively associated with the advancement of the IFAC reforms. What has been your experience? What more is needed to be done on this front?**

**A.** The reforms have been implemented just as they were conceived. I am personally committed to building on the reform process that contributed to the renewal of public confidence in this great profession of ours. IFAC's independent standard-setting boards will continue to focus on strengthening our standards and ensuring that their due processes meet the public's expectations, and our leadership will continue to liaise with regulators and others to better understand how they view our public interest responsibilities.

For the benefit of our profession and the public that we serve, IFAC will continue to listen closely and respond to the recommendations of the Public Interest Oversight Board (PIOB), which comprises representatives of international regulators and institutions. The PIOB provides public interest oversight of IFAC's auditing and assurance, ethics and education standard-setting activities as well as the IFAC Member Body Compliance Program.

We are currently in the ideal conditions to face the new pending projects in order to execute our strategic plan.

**Q. What, according to you, are the primary challenges for the accountancy profession today, more so, in developing countries and particularly India?**

**A.** In the first place, the accountancy profession should remain united in its work to maintain society's confidence in the quality of its services. We have worked well in this sense in the past and we should continue to work in this direction.

At the same time, we should adapt ourselves to the increasing level of regulation of the profession by government and other public interest regulators as is the case in many countries and as will be gradually taking place in the rest. Independent oversight of auditors is positive. In the end, the auditors as well as the oversight organisations have the same objective: to assure the quality of financial information. But at the same time, the independent audit regulators must work to achieve convergence in good practices for audit regulation.

A third key issue that is increasing in importance is the need to respond adequately to the demands of small- and medium-sized entities (SMEs) in relation to the application of accounting, auditing, independence and quality assurance standards. In this sense, the profession should continue to contribute to grant conceptual clarity to the intense debate that is currently developing in relation to this issue.

Another challenge at this moment is the attractiveness of the profession to existing and



prospective members. There is a great deal to do in relation to this issue, and it is another good example of an area in which IFAC should work in conjunction with its member bodies to give the most efficient and effective attention.

Lastly, the profession must respond adequately to the impact of technological changes in the use of and access to financial information. It should work with intelligence and continue to use a collaborative approach to assure a leadership role for the accountancy profession in a range of non-financial reporting and assurance work.

I don't believe that important differences exist in the challenges for developing countries. The difficulties in these are greater due to the lack of resources. India is in a very special situation because, while still being a developing country, its economy is one of the biggest in the world. The accountancy profession in India should lead by example. Its attitude will have a very important impact on other countries around the world.

**Q. Convergence to international standards is the crucial need of the hour, particularly in view of rapid globalisation. How soon will this become a reality?**

**A.** It is already becoming a reality. IFAC will continue to promote convergence, which I believe is an achievable goal and one that is in the best interests of the public. The more quickly we move on this, the greater the chance for success. Our aspirations should be beyond the scope of equivalence and mutual recognition. I know this can be a controversial issue and that the first priority now could be to remove the need of reconciliations, but the objective of achieving full convergence should not be replaced.

The necessary conditions to be able to aspire towards convergence of standards are:

- The existence of an international standard-setting organisation that complies with the best practices applicable to an organisation of this type: adequate terms of reference, an appropriate and transparent due process, suitable human resources and technology, fluid contact with the corresponding stakeholders and appropriate oversight by an independent body;
- An adequate set of international standards issued on behalf of this standard-setting organisation; and
- A political commitment on behalf of the national standard setters to adopt as their standards those issued by the international organisation.

We are moving in the right direction, with an increasing number of countries using or relying on, for example, our International Standards on Auditing. Although there is still much work to do with respect to implementing these standards, we do have substantial momentum. The same is true for the International Public Sector Accounting Standards (IPSASs). The Organisation for Economic Co-operation and Development, the North Atlantic Treaty Organisation, and the European Commission have adopted IPSASs and the United Nations has also called for their adoption by all the organisations within the UN System. In addition, IPSASs have been adopted or are having a significant influence on the development of national standards, in countries around the world.

E.P. Thompson once wrote that since "all the convergent influences of the world" run through India, "there is not a thought that is being thought in the west or east that is not active in some Indian mind." With this in mind, I believe that India is in the best position to contribute to the global convergence process, leading by example.

**Q. How important are SMPs and SMEs in your agenda for the future? How do you plan to go about solving their problems?**

**A.** As I responded to one of the previous questions, attending to the needs of the SMEs and the small and medium practices (SMPs) is a priority for IFAC. No one can deny that, as much in the developing countries as in the developed countries, today, a clear demand exists for the specific needs of all those that act in this market to be duly considered.

The number one priority is to contribute conceptual clarity to the debate.

The principal issues in the debate are:

- Whether SMEs should have a different set of accounting standards;
- If it is always necessary in the case of SMEs to contract an audit or if there are other possibilities for simpler services;
- Whether convergence of standards is also necessary for SMEs; and
- Whether the independence requirements for an auditor of SMEs should be equal to the scope of those of public interest entities.

IFAC will work on these issues. Our SMP Committee will surely have a fundamental role in that task. But we will also try to involve other people who can make a valuable contribution.

We will also follow the International Accounting Standards Board's (IASB) project on accounting standards for SMEs very closely. We will do everything possible on our part, and we will also ask all our member bodies to contribute to the success of this project. It would be negative for the profession if the result of the IASB's project does not satisfy the expectations created for it.

Finally, we will emphasise the need for assistance for this segment in the effective application of the standards. In fact, we are already committed to the issuance of a guide on the implementation of ISAs in the SME/SMP market.

**Q. Do you think that regulators are getting more demanding and is there increasing regulation of the accountancy profession by governments, particularly in developing countries? How does IFAC plan to help its member bodies face this scenario?**

**A.** As I previously mentioned, this is one of the big challenges the profession is facing. The process has a stronger beginning in the more



developed countries, but it is gradually taking root in the developing countries. The developing countries have the additional difficulty of the lack of appropriate resources to satisfactorily implement the recommended oversight mechanisms. IFAC considers that reasonable external regulation that adequately complies with the oversight duty is clearly positive. But at the same time, IFAC considers that the various independent oversight organisations should strive to achieve consistency in the requirements and processes, without reducing the scope of control.

**Q. Has the IFAC Member Body Compliance Program been able to achieve its stated objective? How has India fared in this regard?**

**A.** I believe that the Member Body Compliance Program is achieving its stated objectives. The Compliance Program is designed to drive and monitor continuous improvement in professional accountancy organisations. IFAC members and associates have shown great support for the program and have benefited from their self-assessment with the requirements in IFAC's Statements of Membership Obligations. For example, the ICAI, through its assessment, has demonstrated that it plays a vital role in regulating and supporting the profession in India. As a body responsible for setting accounting and auditing standards, the ICAI takes international standards and adopts them to country specific circumstances. The ICAI has adopted IFAC's Code of Ethics and has recently updated their ethical requirements in line with the latest version of the IFAC Code. The ICAI has also established its own professional accountancy education program and monitors its membership through

its Disciplinary Committee. To encourage the delivery of high quality services, members of the ICAI are subject to a peer review program.

**Q. How do you see India's contribution in various programs and initiatives of IFAC? What more is required on the part of the ICAI in this regard?**

**A.** India has made excellent contributions to IFAC and we hope that we can continue to expect high quality nominees and support from the technical expertise of the ICAI staff. The ICAI is a founding member of IFAC and has a long history of active participation in the accountancy profession, both regionally and internationally. I would like to recognise and thank those members of the ICAI who currently serve on IFAC boards and committees:

- T.N. Manoharan, the President of the ICAI, who serves as a member of the International Accounting Education Standards Board;
- Kamlesh Vikamsey, a member of the IFAC Board and past President of the ICAI;
- Sunil Goyal, a member of the IFAC SMP Committee and past member of the IFAC Board as well as a past President of the ICAI;
- Pankaj Jain, a member of the International Public Sector Accounting Standards Board;
- Bhavna Doshi, who joined our Compliance Advisory Panel in January 2007;
- Shanti Lal Daga, a member of the IFAC Developing Nations Committee; and
- Rajkumar Adukia, a member of the IFAC Professional Accountants in Business Committee.

I would also like to recognise your Chief

Executive, Ashok Haldia, who has served as a Technical Advisor to the IFAC Board.

In addition, the accountancy profession in India is active at a regional level through its membership in the South Asian Federation of Accountants, a Regional Grouping acknowledged by IFAC.

**Q. What is your assessment about Indian Chartered Accountants in the global perspective? What would be your message to them?**

**A.** The ICAI clearly recognises the important role that high quality accounting and auditing standards play in economic development in the modern world. Through its Accounting Standards Board and Auditing and Assurance Standards Board (both established over 20 years ago), the ICAI shows its continuing commitment to provide professionals in India with standards that assist in producing quality, transparent and comparable information. Adoption of good standards would be an empty gesture if standards were not properly implemented, and the ICAI facilitates the implementation process through its devotion to professional education and training. However, education does not stop with qualification exams. Members of the ICAI are required to participate in continuing professional development activities, and the ICAI organises many additional courses and seminars.

Achieving convergence with international standards and putting the focus on quality and education is vital for the accountancy profession in India to continue to deliver the best services to clients and to develop the next generation of accountants, and I commend you for this commitment.



E.P. Thompson once wrote that since "all the convergent influences of the world" run through India, "there is not a thought that is being thought in the west or east that is not active in some Indian mind." With this in mind, I believe that India is in the best position to contribute to the global convergence process, leading by example.