

Building an investment climate of trust biggest challenge for Accountancy profession: IFAC Chief

An outstanding professional with more than 30 years of experience, and a global vision, Mr. Graham Ward was elected President of International Federation of Accountants (IFAC) in November 2004 after serving this world accounting body as a member of its Board for four years (from May 2000). A driving force behind a series of path-breaking initiatives of the IFAC to uplift the accountancy profession across the globe, Mr. Graham Ward has also served as the President of the Institute of Chartered Accountants in England and Wales (ICAEW) in the past. He was appointed Commander of the Most Excellent Order of the British Empire (CBE) in June 2004 for his services to exports. Acknowledged as a pioneer in the energy field, he is also a member of the Executive Council of the Parliamentary Group for Energy Studies (UK). Known for his gritty determination, Mr. Graham Ward has been instrumental in developing the proactive, dynamic and result-oriented approach of the IFAC. In an exclusive interview with the ICAI President and Editor-in-Chief CA. T.N. Manoharan, Mr. Graham Ward shared his vision and mission for accountancy sector and professionals the world over. Following are the excerpts of the Interview:



Q. How was IFAC conceptualised and what is its purpose, mission and membership strength?

A. The International Federation of Accountants (IFAC) was founded in 1977 at the 11th World Congress of Accountants in Munich, Germany. It was established through the cooperation of accountancy bodies from around the world, who shared a common vision of working together to achieve international convergence, promote best practice, and develop the profession worldwide. Although much has changed in business and technology over the past 30 years, IFAC's core purpose and mission have remained the same: to serve the public interest, strengthen the worldwide accountancy profession, and contribute to the development of strong international economies. This is achieved through

establishing and promoting adherence to high-quality professional standards, furthering international convergence, and speaking out on public interest issues where our profession's expertise is most relevant.

IFAC is supported in these efforts by its 163 member bodies, including prominently the Institute of Chartered Accountants of India, in 120 countries around the world. These member bodies represent more than 2.5 million accountants in public practice, business and industry, the public sector and academia.

Q. What are the main challenges before the accountancy profession today, globally in general?

A. The primary challenge facing the global accountancy profession, and indeed

all those in the financial reporting supply chain, is building an investment climate of trust. This is vital to economic growth and stability. To address this challenge, the IFAC Board has undertaken several initiatives: We have acted to strengthen the due process for IFAC's independent standard-setting boards and provided for greater public interest input through consultative advisory groups to those boards. We established the Developing Nations Committee to build and expand accountancy capacity in developing and emerging nations. We have provided additional resources to support professional accountants in business, particularly on governance and ethical issues. And we have worked in partnership with international regulators and institutions to establish and promote effective oversight, via the Public Interest Oversight Board, to ensure that the public interest is protected.

Q. What is the much talked about IFAC Member Body Compliance Program? What is your assessment about India in this context?

A. The IFAC Member Body Compliance Program was launched in 2004 to build credibility in the financial reporting process and in the profession in general. The Compliance Program requires IFAC member bodies and associates to report on whether and how they have complied with IFAC's membership requirements as set out in the Statements of Membership Obligations (SMOs). The SMOs require members and associates to use their best endeavours when promoting, incorporating and implementing international standards set by IFAC and the International Accounting Standards Board. They also require member bodies and associates to have in place quality assurance and investigation and disciplinary programs for their members.

Part 1 of the Compliance Program, the Assessment of the Regulatory and Standard-Setting Framework, is now complete. All of IFAC's 153 active member bodies and associates, including the Institute of Chartered Accountants of India, have completed Part 1 and nearly all of their responses are posted on the IFAC website—www.ifac.org. The remaining

responses will be posted as soon as they are agreed with by the member or associate. The responses from these questionnaires provide a global snapshot of the accountancy profession from both a regulatory and standards perspective. India provided a first class response.

Part 2 of the program, the SMO Self-Assessment Questionnaire, was launched last December and member body and associate responses will be posted beginning in the second half of 2006. Responses to this part of the program will help IFAC to gauge where it needs to focus its efforts to support the development of the profession and to work to achieve convergence. Lastly, but perhaps most importantly, the responses to both Part 1 and Part 2 demonstrate the international accountancy profession's willingness to be accountable for its actions to meet high standards, to deliver quality and to protect the public interest – all important responsibilities in the changing and complex environment in which we all work.

Q. Convergence has emerged as the key word and a crucial requirement across the globe. To what extent has the convergence of auditing standards been achieved so far? Have you set any deadline for this?

A. Convergence to international standards is a primary objective of IFAC and a stated goal of the IFAC Member Body Compliance Programme. The goal of convergence is to promote consistent, high quality practice by professional accountants throughout the world. The International Auditing and Assurance



Standards Board (IAASB), an independent standard setter within IFAC, establishes International Standards on Auditing (ISA). The aim is to enhance the quality and uniformity of auditing practice throughout the world and to strengthen public confidence in the global auditing profession.

While there is no official timetable for convergence, the Compliance Program does require members and associates to demonstrate that they are supporting convergence efforts in their countries. Currently, well over 70 countries use or rely on ISA either as their national standards or as a basis for their auditing standards. More countries are moving toward convergence every year and more and more countries are translating ISAs. Recently, the European Union approved the Eighth Company Law Directive, which requires member states to adopt international standards on auditing by June 2008. The EU is considering the IAASB's ISAs as those standards. Also, in February, I attended a release ceremony in Beijing, China at which the Chinese Ministry of Finance released new accounting and auditing standards that reflect China's commitment to international convergence and the importance of convergence in building public confidence in financial statements.

India is a strong supporter of ISAs and convergence and I look forward eagerly to the time, hopefully very soon, when Indian auditing standards are fully converged with ISAs.

Q. What is the purpose and mission of IFAC's Developing Nations Committee? What have been its prime achievements so far? Has it made any difference to its target audience?

A. The purpose of IFAC's Developing Nations Committee is to support the development of the accountancy profession in all regions of the world by representing and addressing the interests of developing nations. This includes seeking resources and development assistance from member bodies and other organisations and issuing guidance to support the development of the accountancy profession.

Last December, the Developing Nations Committee released new good practice

guidance entitled Establishing and Developing a Professional Accountancy Body. This guidance is designed to support development agencies, member bodies, governments and others in building accountancy capacity around the world. The guide addresses a variety of situations, including where a formal accountancy profession does not yet exist in a country, where the profession exists and there is a desire to establish a professional accountancy body, and where an existing professional body requires further development and enhancement. The guide also includes suggested areas for priority action based on short-, medium- and long-term goals and projects.

The work of the Developing Nations Committee, including the development of this new guidance, has generated significant positive feedback. Member bodies, development agencies and others have praised this new guidance and its value in helping to grow the accountancy profession in developing countries. The Developing Nations Committee is building upon this success by preparing a country-specific approach to supporting developing nations, helping both 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. In addition, the committee plans to hold a forum on the development of the accountancy profession in developing countries. This forum will be held in Kenya in September. More details on the forum will be available on the IFAC website in the coming months.

Q. World over a large number of SMEs are operating in different sectors of economy. What are the steps IFAC intends to take to overcome problems associated with this sector in the area of auditing requirement of such entities?

A. IFAC recognises the unique needs of small and medium entities (SMEs). Our Small and Medium Practices (SMP) Committee was established to support SMPs and to represent the interests of SMPs and SMEs to international standard setters such as the IAASB and the

International Accounting Standards Board. The committee has provided input to both of these groups from an SMP/SME perspective so that standards properly reflect the needs of these constituencies. In addition, the SMP Committee is currently developing an ISA Guide for SMEs that will help auditors around the world to understand, comply with, and apply International Standards on Auditing when conducting SME audits.

Following discussions at the annual meeting with chief executives of IFAC member bodies in February, which was attended by ICAI Chief Executive Dr. Ashok Haldia, IFAC issued a press statement supporting the development of appropriate, simplified guidance for SMEs. The goal is to reduce the reporting and regulatory burden on SMEs and to ensure that standards appropriate for SMEs are developed.

Q. In your view, what are the main problems of Small and Medium Practitioners (SMPs) world over? What are the steps taken by the IFAC in addressing these problems?

A. SMPs face a similar problem as their SME clients: burdensome and inappropriate regulation. Public practice has become highly regulated. This has resulted from the desire to have a single, homogeneous set of rules and regulations applicable to all entities regardless of size. However, keeping up with all these changes presents an enormous challenge for SMPs. As they struggle to meet this challenge, SMPs are also often confronted with professional isolation and limited technical resources.

We at IFAC recognise the growing importance of SMPs and SMEs to the development of a dynamic profession and national economic growth. Our SMP Committee is working to ensure that standard setters are aware of and give consideration to issues specific to SMPs and SMEs while developing standards. In addition, the ISA Guide for SMEs that we are preparing will assist auditors in applying international standards to audits of smaller entities. The SMP Committee is also working on a project to facilitate knowledge sharing among SMPs and SMEs.



As a matter of policy, IFAC's independent standard-setting boards set principle-based standards. These are efficient for use by SMPs in a cost-effective manner.

Q. Don't you think that the established ethical standards and codes of conduct are not being put in practice by professionals in totality? How is IFAC taking on this challenge?

A. On the contrary, in the wake of Enron and WorldCom, I think there has been a strong return to fundamental ethical values among accountants at all levels. Ethical conduct defines us as a profession. It is a vital part of what we do, because as accountants and auditors, our work is based on trust and assurance. High standards of ethical conduct are essential for maintaining that trust. Last June, IFAC's International Ethics Standards Board for Accountants released an updated Code of Ethics for Professional Accountants. The revised code, which is effective from June 30, 2006, further emphasises the five fundamental values of ethical conduct. These are integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. The development of the updated Code is part of an ongoing effort to ensure that all professional accountants – whether they work in public practice, business or government – have clear, relevant and high quality ethical guidance. It is essential that professional accountants the world over adhere to the requirements in the Code of Ethics. These requirements are not optional. They are mandatory. Neither IFAC

member bodies nor firms conducting audits in accordance with ISAs may apply less stringent ethical requirements than those in the Code.

Q. How do you view the level and spirit of India's involvement and participation in various programmes and initiatives of the IFAC?

A. The accountancy profession in India has long been active in the international profession. The Institute of Chartered Accountants of India is a founding member of IFAC. Numerous Indians currently serve on IFAC boards and committees, including yourself (ICAI President, CA. T.N. Manoharan) who serve on our International Accounting Education Standards Board, Immediate Past President Mr. Kamlesh Vikamsey, who serves on the IFAC Board; Past President, Mr. Sunil Goyal, who serves on our Small and Medium Practices Committee; and ICAI's chief executive, Dr. Ashok Haldia, who serves as technical advisor to the IFAC Board. These gentlemen and other Indian representatives who have served on IFAC boards and committees in the past exemplify the spirit of active participation that has long typified the accountancy profession in India. This participation is also evident by the Institute of Chartered Accountants of India's participation as a key member of the national auditing standard setters, who meet annually with the IAASB to share plans and discuss matters of common interest.

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 are the areas – present, emerging and futuristic – that need to be focused upon by accountancy professionals, particularly from Indian perspective, to continue to meet the rising expectations?

A. The critical issues that the accountancy profession, both here in India and internationally, must focus on today and in the future are protecting the public interest and contributing to economic growth and development. To achieve these objectives, we

must focus on the fundamentals: Sound ethical conduct, quality performance and adherence to high-quality professional standards. Ethics must remain a central focus for professional accountants. High ethical conduct must be the foundation of everything we do. Otherwise, public confidence and trust will be undermined and all our work will be for naught.

Professional accountants must also focus on providing high quality, value-added professional service whether they work in business, an accountancy firm, or the public sector. This means making a concerted effort every day to perform at a level of high quality and to do so in accordance with internationally recognised standards of practice. We must also focus on promoting sound corporate governance and accountability. It is through these efforts that we can protect the public interest, build investor confidence, and contribute to economic growth and stability.

Q. Is the IFAC working on some new auditing or ethical standards? What are IFAC's major plans in near future?

A. IFAC's standard-setting boards are currently engaged in a number of projects to develop standards and guidance on key topics in the areas of ethics and auditing. The International Ethics Standards Board for Accountants has commenced a project to consider whether any parts of the independence requirements contained in Section 290 should be revised. The independence provisions in the Code were issued in November 2001 with an effective date for assurance reports issued on or after December 31, 2004. Since issuance, several failures have led to a loss in credibility in aspects of the financial reporting process and many jurisdictions have taken steps to restore credibility. Some of these steps have related to auditor independence requirements. The Board now intends to produce an exposure draft of proposed changes to Section 290 by the end of 2006.

In the area of auditing standards, the IAASB is engaged in a major project to redraft its standards to make them clearer and more understandable and to facilitate translation and convergence. This is called the "Clarity" project.

Last October, the IAASB released the first four proposed standards redrafted in its new Clarity drafting convention. The IAASB is currently reviewing the responses to those exposure drafts. It plans to redraft the remaining body of ISAs in this new style within the next two years.

In addition to the Clarity project, the Group Audits re-exposure draft issued in March and the planned output for the remainder of 2006, the IAASB is also working on the development of other new or revised standards and guidance on:

- External confirmations
- The independent auditor's report on other historical financial information and on summary audited financial statements
- Modifications to the opinion, and emphasis of matter paragraphs and other paragraphs, in the independent auditor's report
- The meaning of material weaknesses in internal control, and
- Service organisations.

These initiatives, as well as those of IFAC's other standard-setting boards, are helping professional accountants and auditors to address the key issues that they face today.

Q. How does IFAC facilitate Knowledge Resource for Accountants in Business?

A. Professional accountants in business are a very significant constituency for both IFAC and our member bodies. More than 50 per cent, or nearly 1.3 million professional accountants, who are members of IFAC member bodies work in business and industry. To provide professional accountants in business (PAIBs) with one-stop access to high quality, relevant information, IFAC and several of its member bodies have undertaken a project to develop a web-based Internet search engine that will bring together information from the websites of IFAC, its member bodies and other organisations. The development phase of the resource centre project is nearly complete, and we plan to launch the new knowledge resource in September 2006. I would like to thank the ICAI for its offer of technical assistance in the development of this project. We will be publicising more information on the new resource centre in the coming months.

Q. What initiatives have been taken by the IFAC to restore investor confidence and trust in capital markets and their participants, particularly after the corporate fraud and misconduct in the US and elsewhere shook investor confidence across the globe?

A. In November 2003, the IFAC Council approved the Proposals for Reform, which were designed to ensure that IFAC's activities were transparent and protected the public interest. Since then, IFAC has implemented a number of initiatives, some of which I have already mentioned, to restore public confidence:

- We launched the IFAC Member Body Compliance Program to ensure that members and associates are fulfilling their membership obligations and supporting international convergence.
- Public members were appointed to each of IFAC's standard-setting boards, to ensure that public interest input is represented in the standard-setting process.
- Meetings of all the standard-setting boards were opened to public observers and related materials are posted publicly on the IFAC website in advance of each meeting.



- We established or strengthened the consultative advisory groups (CAGs) to the IAASB, Ethics and Education Standards Boards, and each of these CAGs now has an independent chair who is elected by the member organisations of the CAG.

But perhaps the most significant reform was the establishment of the Public Interest Oversight Board (PIOB) in February 2005. The PIOB is independent and comprises members nominated by international institutions and regulatory bodies. The PIOB oversees IFAC's standard setting in the areas of auditing and assurance, ethics and education as well as the Member Body Compliance Program. It approves the nomination of chairs and members to these groups and establishes their due process and working procedures. The PIOB's oversight provides assurance that IFAC activities are transparent and reflect the public interest.

Q. How do you rate Indian accountancy professionals in global perspective? Can you briefly outline their main strengths and weaknesses?

A. The Institute of Chartered Accountants of India is internationally recognised as a strong institute that is very involved both in regional and international activities. This is demonstrated through your involvement in leadership positions in IFAC and in the South Asian Federation of Accountants. In addition, your attention to all major areas of the accountancy profession is strongly recognised and re-

spected, as are your initiatives with respect to quality control, standard setting and self-regulation. When I visited India earlier this year, I had the opportunity to see first hand the dedication of professional accountants of India to the accountancy profession both here in India and in the wider world. For this, you should be commended.

Q. What message would you like to convey to the members of ICAI?

A. First, I would like to thank the ICAI and the accountancy profession in India for the warm welcome I received when I visited in January 2006 and April 2006. It was a pleasure to meet with representatives of the profession, standard setters, regulators and government and to engage in dialogue with them on the profession's role in building investor confidence and protecting the public interest.

I would also like to thank the ICAI and the accountancy profession in India for its support and active involvement in IFAC, and for its commitment to high quality practice. I encourage each individual accountant in India to continue to focus on high-quality and professional practice, to adhere to the highest ethical principles, and to remember that the public interest must be our first priority. It is through a continued focus on the core values of our profession – integrity, transparency and expertise – that you can contribute to economic growth and development, both in India and throughout the world, and help to eradicate poverty.

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