

SETTING THE STANDARD

Fayez Choudhury takes charge of the International Federation of Accountants at a critical time for public sector finance. He talks to PF about the state of government accounting and why the 'day has come' for global standards

Words: Mike Thatcher

THE INTERNATIONAL FEDERATION of Accountants has had to deal with some difficult issues in its 35-year history: not least the fallout from the Enron scandal of the early 2000s when the credibility of company financial reporting came seriously into question.

More than ten years on, and it's the public sector that is the focus of critical attention. As the sovereign debt crisis has spread across the globe, many people are asking why government accounts failed to show the extent of the problem.

There are concerns that accrual-based accounting has not generally been adopted, even in large developed countries, and the uptake of International Public Sector Accounting Standards has been limited. Outgoing IFAC chief executive Ian Ball said that current government accounting methods 'made Enron look good'. So what does his successor, Fayez Choudhury, think of the situation?

In a wide-ranging interview with *Public Finance*, Choudhury admits that progress on adopting international standards has 'not been as fast as one would like'. But he predicts a mood change, with a range of interested bodies, including Eurostat (the European Commission's statistical agency), the International Monetary Fund and the World Bank now supporting greater adoption of the standards.

Choudhury tells *PF* that the 'day has come' for IPSAS and that IFAC must play a lead role in co-ordinating the campaign for more transparency.

A number of countries have recently embraced international standards, particularly in the developing world. Nigeria adopted the cash-based version in January this year and will move fully to accrual accounting in 2015. Other African countries are likely to follow suit, with the Pan African Federation of Accountants adopting support for IPSAS at the inaugural meeting of its general assembly in May last year.

IFAC has also been buoyed by a recent IMF report, which called for a 'revitalised fiscal transparency effort'. And it is awaiting Eurostat's views on the pros and cons of

applying the standards across the European Union. A preliminary report summarising the results of its public consultation was published in January, showing little consensus on the way forward. Final recommendations were promised by the end of February, as this issue of *PF* was going to press.

Choudhury says he would like Eurostat to recommend compulsory implementation of the standards and to set a deadline, but

he suggests that perhaps it is 'not a near-term objective'. However, he believes we are moving closer to this 'ultimate goal'.

The Bangladesh-born Oxford graduate knows he has a tough task ahead. But he brings a wealth of experience – including 25 years at the World Bank, most latterly as controller and vice president of strategic planning and resource management. While at the Bank, he was also a member of the Public Interest Oversight Board, which oversees most of IFAC's standard-setting and ensures it is in the public interest.

Now based at IFAC's New York headquarters, Choudhury spoke to *PF* just before he officially took over as chief executive.

You were born in Bangladesh, went to university in England, worked in Nigeria and now live in the US. What nationality do you consider yourself?

I have two passports – Bangladeshi and UK. Until we came to the States, I'd never lived in one country for more than six or seven years. Now I have lived in the US for 25 years. But I will pretentiously lay claim to internationalism.

What have been your early impressions of IFAC?

I have been really impressed with the organisation and the people. A lot of the credit for that goes to Ian Ball who has done a remarkable job. If you compare where IFAC was ten years ago to today there has been tremendous improvement.

Having said that, it would be a wasted



Curriculum Vitae

2013 International Federation of Accountants Chief executive

2005–2010 Public Interest Oversight Board Member

1985–2010 World Bank and International Finance Corporation Various positions culminating in vice president, corporate finance and risk management; and controller and vice president, strategic planning and resource management

1978–1985 Price Waterhouse Consulting Practice Assistant manager to managing consultant, including two-year secondment to Nigeria

1974–1978 Price Waterhouse Audit Practice Audit assistant to assistant manager

1974 MA (Oxon) in Engineering Science and Economics, Oxford

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opportunity if a new person did not come in and ask the dumb questions and force the organisation to think afresh about ‘we are doing well, but can we do better?’

What do you want to achieve as chief executive?

To have an uncontestable belief among the public that IFAC’s standard-setting activities are independent and produce high-quality standards. That’s a continual process and I would like that perception to be much stronger when I leave than it is now, although it is strong now.

I would have liked far more movement on the International Public Sector Accounting Standards front – that they are recognised as the primary mechanism for ensuring transparency and integrity of public sector financial information. I hope we will get significant movement in terms of adoption and implementation.

Then, that member bodies and firms view IFAC as providing additionality over what they do individually in serving the accounting profession and that we are seen as a valuable and value-added partner.

Finally, that individual accountants

across the world look to IFAC as a source of valuable information and are comfortable with the way we advocate for the global accounting profession.

What is your view of the general state of government accounting?

There is almost a moral obligation that government accounts be reliable and have integrity. From my World Bank experience, I have seen that in developing countries this is often not the case and it has consequences in terms of economic management and corruption. That’s why the Bank was one of the early sponsors of public sector accounting standards and continues to give great support to that.

Unlike the private sector, where if a company wants to go to the capital markets they are required to adopt high-quality standards, the public sector doesn’t really have that kind of pressure. It is in many ways a choice of the government in power whether or not they move in that direction.

The uptake has not been as fast as one would like in terms of adoption and implementation of IPSAS. There have been gains – it is not insignificant, but clearly there is further to go. I think now we are at a point where there have been a number of developments that suggest IPSAS’ day has come.

What makes you so confident about the adoption of international public sector accounting standards?

First, there is the sovereign debt crisis, which has alerted everyone to the fact that these are not just arcane issues of public finance. If I hold sovereign debt in my retirement portfolio I have a deep interest in making sure that that debt is being issued and priced on the basis of reliable information.

Secondly, we have the attention of some very influential organisations. The IMF is one, with its report on fiscal transparency, accountability and risk, which really gives credibility to the standards and a lot of momentum to their use. And

Leading the way: Nigeria adopted cash-based IPSAS in January this year and will move fully to accrual accounting in 2015



obviously there’s the Eurostat report that will shortly be issued, which has positive implications for IPSAS.

So where we stand at the moment is that IPSAS are more in the public limelight, they are getting the attention of the sorts of people that need to know that they are available and that they are high quality.

What is the next step for IFAC in encouraging adoption of the standards?

The challenge for IFAC is to play a lead role in co-ordinating all the people who have an interest in IPSAS for a more concerted campaign. There are a lot of people who believe in IPSAS – we talk to each other but we don’t necessarily act in concert. We need a far more intensive co-ordinated campaign among all the parties that have an interest.

There’s IFAC, the development banks, the World Bank, the regional development banks. I am also hoping that the IMF and Eurostat will be participants. Member bodies such as CIPFA would bring credibility from the practitioner perspective, while the firms would also bring credibility in terms of practical issues to be confronted.

It is a question of creating a compelling case by linking all these groups to catalyse the adoption and implementation

effort. Collectively we can make more of a compelling case than individually.

What did you think about the results of the Eurostat consultation on international standards?

As I understand it, Eurostat supports the implementation of uniform and comparable accrual-based accounting practices. Some of the submissions they received [in response to the public consultation] indicate a significant percentage consider IPSAS to be suitable for implementation, a slightly lower percentage answered that they were partly suitable and a lower percentage still suggested they were unsuitable.

That’s very good feedback. For the roughly one third who considered that IPSAS were partly suitable, we’ll have some indication of why they feel that way. In terms of people who believed they were not suitable, again one can engage in a dialogue as to why they believe that is the case. All data is good data, and this will be very helpful.

The key point is that there is an acknowledgement that IPSAS do have elements of what’s needed and there is specific feedback on areas where people may want to see changes.

IFAC facts

- The International Federation of Accountants is the global organisation for the accountancy profession.
- Founded in 1977, it now has 173 members and associates in 129 countries and jurisdictions worldwide. It represents more than 2.5 million accountants employed in public practice, industry and commerce, government and academia.
- IFAC broadly has two major areas of activity: to provide support for independent standard-setting and to further the interests of the global accounting profession.
- It supports four international standards boards covering: auditing & assurance; public sector accounting; education; and ethics.

Would IFAC like to see compulsory implementation of international accounting standards by a set time?

Ultimately, that would be a very desirable goal. In the private sector, if you were to go for a listing on the New York or London Stock Exchange and say ‘I am not going to use IFRS or US GAAP, my chief accountant is a really good guy or gal, I am sure they have prepared this correctly’, you’d be shown the door pretty quickly.

I don’t think it’s a near-term objective but I don’t think it’s necessarily that far away. It would be nice if there were a similar constraint on governments when they issue bonds.

None of us in our wildest dreams expected the Eurostat report to come out and say IPSAS need to be prescriptive and we will legislate that they will be adopted. But the fact that there is now a systematic assessment of their suitability and granular feedback on where they need to be strengthened moves us significantly further ahead in the achievement of that ultimate goal.

What do you think about the standard of government accounting in the US and the decision by the Government Accountability Office to refuse to express an opinion on its accounts?

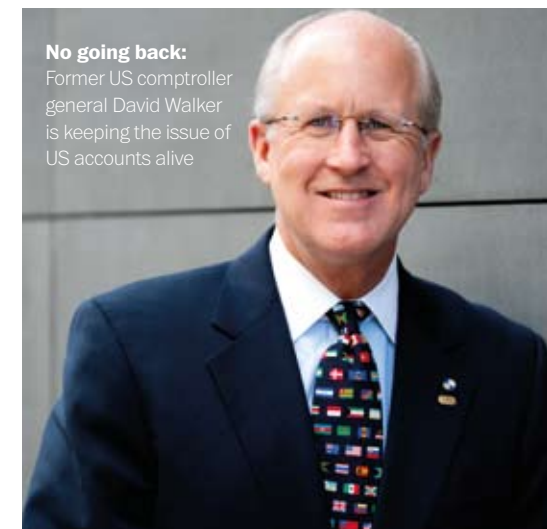
This is the issue that [former US comptroller general] David Walker has been trying to bring to everyone’s attention. Some of his later work has been focused on, in his view, the lack of sustainability of US finances. Clearly it’s an important issue.

IFAC’s goal is to oversee the process of the development of high-quality international standards from the perspective that these are a global public good. That’s the development of the standards. In terms of adoption and implementation, we have no mandate.

What we hope to do is be active and credible in the debate. Whoever the authorities are in the US or the EC who make these decisions, we want them to be aware that we do this work on

No going back:

Former US comptroller general David Walker is keeping the issue of US accounts alive



standard-setting and are available to be consulted with.

So if we are invited to participate in that debate we would be delighted to do so. But we have to walk a fine line and not get involved directly in debates on individual countries.

How do you convince politicians to support more transparent accounting practices when these will inevitably make the short-term public finances appear much worse?

If you take the role of a politically elected government to act in the interests of the electorate, both short term and long term, clearly that is not the way the world often works. It is more often the short term that predominates, particularly if the long-term direction costs political capital.

That’s a conundrum, but there are a large number of countries that have done it, so I don’t think it’s quixotic to say it can be done. It clearly can be done.

When you have people like David Walker keeping the issue alive in the public mind, trying to keep politicians on their toes, this is an issue that isn’t going to go away. Hopefully, eventually, there will be progress. But sometimes these things take a lot of time. ☺



Day of reckoning: one of IFAC’s major challenges was dealing with the professional fallout from the accounting practices of the Enron energy company