

AN INTERVIEW WITH DR STAVROS THOMADAKIS

Chairman, International Ethics Standards Board for Accountants®

Dr Stavros Thomadakis was appointed independent chair of the International Ethics Standards Board for Accountants® (IESBA®) for a three-year term beginning 1 January 2015. He is the emeritus professor of financial economics at the University of Athens. For many years, he directed the university's graduate programme on applied accounting and auditing, in cooperation with the Hellenic Institute of Chartered Accountants.

In this exclusive interview with *IS Chartered Accountant* journal, Dr Thomadakis provides his views on the recent hot topics surrounding ethics, and shares his vision for the development of ethics in the near term.

What is your vision for the IESBA? What impact do you hope to make during your tenure as its Chairman?

My primary goals are to lead the IESBA to produce high-quality ethics standards for the global accountancy profession in the form of the Code of Ethics for Professional Accountants (the Code), to further its adoption and effective implementation globally, and to enhance the IESBA's reputation as an



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independent, global standard-setter, all while ensuring that our strong commitment to the public interest remains centrestage.

At an operational level, my aim is to steer the Board's efforts in two important areas: (a) more intense and project-based outreach to stakeholders, and (b) a more research-based approach to our projects.

There are no easy issues nowadays and realities on the ground are complex. It is only through engaging with our diverse stakeholders and establishing a sound knowledge basis for setting standards that the Board can hope to gain global recognition and acceptance of the Code.



2 In late July this year, corporate Japan was rocked by news that Toshiba had engaged in a company-wide effort to inflate its profits by approximately US\$1 billion over a seven-year period. *The Financial Times* reported that Toshiba's fundamental problem was "a corporate culture that did not allow employees to go against the will of their superiors". Accountants face such ethical dilemmas day to day, including the real prospect of losing one's livelihood. Do you have any thoughts on this? What can realistically be done when such a culture is so deeply rooted?

I believe that tone at the top is enormously important to shaping corporate culture. We live in a highly-competitive world where pressures to achieve financial targets or meet market expectations can be intense. Unfortunately, as we have seen in the Toshiba scandal and more recently around Volkswagen's emissions scandal, the corporate culture in some companies may sometimes not fully recognise and address the ethical dangers from such pressures. One of the aims of our current project, which deals with that part of the Code which applies to professional accountants in business (PAIBs) (Part C), is precisely to address the ethical implications of these very pressures that PAIBs may face from, or impose on, others.

Of course, corporate culture is but one component of defence against corporate malfeasance. Corporate leaders need to put in place the right governance and control frameworks

that will establish an appropriate check-and-balance mechanism and reinforce a culture of accountability and ethical conduct. This includes prioritising the development, communication, and enforcement of a clear code of conduct to which management and all employees – not just accountants – must adhere.

The Code plays an important role in providing an ethical compass for PAIBs, setting the expectations for ethical conduct in all their professional activities. Importantly, it emphasises the critical role PAIBs in management positions can play in encouraging an ethics-based culture throughout their organisations.

3 A keenly-watched area is IESBA's revised proposals on non-compliance with laws and regulations (NOCLAR). The original proposals were met with significant opposition. Many claimed, rightly or wrongly, that IESBA succumbed to pressure from certain stakeholders and had not been objective in listening to others. What are your thoughts, and were there lessons for IESBA?

Consultation is and has always been a key part of the IESBA standard-setting process. The Board believed that its 2012 proposals represented a robust response to what professional accountants' responsibilities should be when they encounter actual or suspected NOCLAR. Our stakeholders' feedback made it clear that there were significant concerns regarding the global applicability of the proposals and the potential for unintended negative consequences. However, as we know, hindsight is a wonderful thing. What this first consultation



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achieved was that it enabled the Board to elicit comprehensive and thoughtful stakeholder feedback on an issue that is complex and, in some respects, divisive. We therefore conducted a series of three global roundtables. These not only enabled substantial additional feedback, but also enabled different stakeholder groups to hear firsthand each other's perspectives.

We issued a second Exposure Draft, *Responding to Non-compliance with Laws and Regulations*, in May this year. The revised proposals are not focused on mere mechanical "whistleblowing". Rather, they make a duty of careful consideration of the appropriate courses of action, including whether to report the matter to an external authority, based on a structured process well founded on evidence and the exercise of objective professional judgement in the public interest. Importantly, the aim is not only to increase reporting where mandated by law or regulation, but also to deter NOCLAR or to rectify, remediate or mitigate its consequences. We believe the revised proposals are fit for global use and will clearly raise the bar for jurisdictions that do not mandate such reporting. The consultation period has now closed and the Board will conduct a full review of the feedback this December. We hope to finalise the proposals by the first quarter of 2016.



5 A lot has been written about integrity and transparency in public financing and accountability. In your view, what are the ethical lessons that can be gleaned from your experience of the Greek debt crisis?

Politics must be compatible with ethics if democracies are to survive. In Greece, we have an example of how populism can lead to excessive borrowing and fiscal derailment without any self-control mechanisms. Two pillars are required – a robust basis for public sector accounting that supports transparency, responsible politics, and proper management of public finances; and a political Code of Ethics that underpins responsible behaviour, decision-making, and accountability.

Financial transparency and accountability in the public sector are just as important as in the private sector. Elected officials and public servants need to be held to account for the way they spend taxpayers' money. Importantly, they should also be held to at least the same high levels of ethics and accountability as those in the private sector. I believe the accountancy profession, living by the Code, can be a robust role model in this regard.

I personally am very supportive of IFAC's "Accountability.Now" project, which represents a coalition of organisations that believe good financial management is essential when it comes to government spending on services and infrastructure to serve a nation's citizens. It is especially important that jurisdictions that have experienced major fiscal crises, such as Greece, overhaul their financial reporting regime and implement the international standards for public sector financial reporting, the International Public Sector Accounting Standards™ (IPSAS™), developed by the International Public Sector Accountants Standards Board®. This would be a good first step toward regaining citizens' trust and rebuilding economic confidence. ISCA

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Facilitation payment – depending where one comes from – may not be tolerated at all, or could be a way of life that is necessary or even forced upon because of broken governments and systems. IESBA is looking into ethical standards on facilitation payments. What challenges do you foresee in developing such standards? Advanced countries may already have standards of their own, while others should have them but are unlikely to enforce them. Is it worth pursuing an ideal that is inoperable in an imperfect world?

The world is indeed imperfect and presents many challenges. However, putting our heads in the sand is not the answer. The real test of our success

is whether we can set principles that disrupt the *status quo* in areas where ethical practice needs to be elevated, particularly in those parts of the world where the rule of law is not robust. And one of those areas is facilitation payments, which we are addressing through Phase II of our Part C project.

Let's be clear – corruption and bribery are a global problem that affect both developed and developing economies. This is one area where the Code can make a significant impact in the public interest. By virtue of their obligation to comply with the Code, PAIBs can play an important role in facing up to corruption and bribery. The Code can assist by not only setting out clear expectations for ethical conduct and delineating more clearly the boundaries of what is acceptable, but also providing them with helpful, practical guidance in dealing with these issues when they arise. We must remember, however, that the IESBA alone cannot solve the global problem of corruption and bribery. Legislatures, policymakers, inter-governmental organisations and enforcement bodies, among others, must play their roles to eliminate these blights.