

“Developing Global Solutions—a Shared Responsibility”
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Good morning, ladies and gentlemen. Before I begin my remarks, I'd like to thank the British Accounting and Finance Association's Auditing Special Interest Group for inviting me to participate in these two days of conference among such a distinguished group of speakers and industry experts.

Just as a little background, the International Federation of Accountants, or IFAC, is the global organization of the accountancy profession, representing approximately 2.5 million accountants in public practice, education, government services, industry, and commerce. Our members and associates are professional accountancy organizations, spanning 127 countries, including developing, emerging and developed countries.

One of IFAC's primary roles is to support four independent standard setting boards focusing on audit and assurance, ethics, education, and public sector accounting.

The International Auditing and Assurance Standards Board, or IAASB, is one of those boards IFAC supports. You will hear from deputy chair Dan Montgomery after lunch today. The IAASB is an independent entity made up of a full-time chair, Professor Arnold Schilder, and 17 volunteers. Half of its 18 members are practitioners, who bring practical audit knowledge to the process, and the other half contains non-practitioners.

In addition to their independence from audit practice firms, non-practitioners bring to the table valuable knowledge and experience and their full participation is crucial to the standard-setting process.

Currently, the IAASB includes two members nominated by U.K. professional bodies - Jon Grant a non-practitioner and standard setter and Brendan Murtagh a small practitioner – and it receives support from U.K.-based technical advisors from the Financial Reporting Council and the ACCA.

Global convergence, IFAC believes, is a critical part of finding global solutions. In a global economy with its interconnected markets, IFAC has consistently promoted the need for adoption of a single set of high-quality audit and assurance, education and ethical standards to level the playing field.

We've learned that national or even regional solutions are no longer viable and the status quo is an option to be chosen at our own peril. There is no doubt the global financial and sovereign debt crises have brought to the forefront the urgent need for the transparency and accountability that auditing and assurance can provide.

We are happy to see the European Union is considering mandating the use of International Standards on Auditing (ISAs). We hope the EU follows an adoption path that ensures all member states will be using the complete set of ISAs.

This is a significant step forward in convergence to high-quality international standards, which facilitate transparency, consistency, economic growth, and financial stability. IFAC encourages the use of ISAs, as they are designed for audits of entities of all sizes, and are capable of being applied in a manner proportionate with the size and complexity of an entity.

Adoption of ISAs in the EU is also a critical step in facilitating a truly single European market.

On a broader level, IFAC believes that continued institutional coordination among IFAC, the IAASB, the EU, professional accountancy organizations, and other stakeholders should take place to support the implementation of ISAs at the Small and Medium Practice and Small and Medium Enterprise level. This also includes the need for further research, working papers, and other products that will assist in educating all parties and stakeholders.

Let me also just briefly point out that we also feel strongly about convergence in public sector accounting standards. Indeed, the sovereign debt crisis has demonstrated that governments need to be more accountable and transparent.

Strong financial reporting is in the public interest and has the potential to improve public sector decision-making, hold governments more accountable to their citizens, and enhance global fiscal financial stability and fiscal sustainability.

How much more rioting and how many more male suicides should the public endure?

Cooperation and communication between public and private sector are prerequisites for the establishment and sustainment of international standards. As IFAC set forth in its Position Policy Paper 3, "International Standard Setting in the Public Interest," the overriding objective in the design of the standard-setting process is to ensure that the institutional arrangements are, and are seen to be, properly responsive to the public interest at a global level.

A key issue for the public interest is the legitimacy and independence of the standard-setting process. These traits are vital to increasing public confidence in standard-setting arrangements and, ultimately, in strengthening auditing and assurance. Key elements of the arrangements to increase legitimacy and independence are an external process for monitoring and oversight of standard setting, and increased transparency.

Legitimacy is achieved when standard-setting arrangements, both in structure and process, give standards the level of authority necessary, in an international setting, to generate confidence in the standards of auditing and assurance, ethics and education, and - through those - confidence in financial reporting.

It also achieved through independence, improved technical competence, high levels of transparency, and appropriate levels of performance from the standard setter and through accountability of the standard setter to stakeholders, especially the international regulatory community.

As we remember, more than a decade ago, a crisis in confidence and competence occurred as a result of widespread financial reporting and auditing problems. Enron and other private sector companies revealed glaring examples of poor accounting and auditing. Acting in the public interest, governments responded strongly, radically strengthening the rules for financial reporting, accounting, and auditing in the private sector.

In 2003, IFAC undertook a comprehensive review of governance arrangements for the standard-setting board to determine how to strengthen our role in ensuring that the accounting profession worldwide fulfills its public interest responsibilities and provides all stakeholders with greater confidence in standards.

As part of this process, IFAC engaged in an intense series of consultations with international regulatory agencies and other regional and international organizations. We also consulted with our member organizations, the accounting profession, firms, and representatives from academia.

The result of this collaborative effort was a series of reform proposals that IFAC views as critical to strengthening the accountability of the international profession and building investor confidence in standards.

Our objective was to increase confidence in the independent standard-setting process, to ensure it was properly responsive to the public interest and to establish high-quality standards and practices in auditing and assurance as well as other areas.

These proposals provided for more transparent standard-setting processes; greater public and regulatory input into those processes; regulatory monitoring; and public interest oversight. They also ensured there would be regular, ongoing dialogue between regulators and the accountancy profession through the creation of several new structures, some of which would be supported directly by IFAC while others would be independent of it.

From those proposals came several milestones, including the 2005 establishment of the Public Interest Public Interest Oversight Board (PIOB) to oversee IFAC standard-setting activities in the areas of audit standards, independence, and other ethical standards for auditors, audit quality control and assurance standards, and education.

I had earlier mentioned IAASB chair Arnold Schilder in my comments, and it's important to note that his position as a full-time, independent chair was another result of the 2003 reforms. This has enhanced legitimacy and acceptance of high-quality international standards for auditing and assurance, quality control, review, and related services.

Another key development was the creation of the Consultative Advisory Groups (CAGs) not only for the IAASB, but for the International Accounting Education Standards Board (IAESB) and the International Ethics Standards Board for Accountants (IESBA). Each CAG is comprised of individuals and representatives of external organizations, many of whom from the regulatory community, with an interest in the development of high-quality international standards designed to serve the public interest.

Historically, IAASB and IESBA have responded to issues and endeavored to play an active part in finding solutions. But meaningful solutions cannot be conceived, developed and executed overnight. Due process - which includes consultation with all stakeholders – remains a priority.

Additionally, it is important to restate the PIOB's key role in protecting the public interest. The PIOB has a responsibility to exercise oversight of the standard-setting activities carried out by the IAASB, the IESBA, the IAESB, and of the activities of the Compliance Advisory Panel, and ensure that due process is followed. It has other mechanisms at its disposal, including oversight of the nomination process and approval of the nominees.

Furthermore, to ensure standard-setting boards act not only in the public interest, but also in the public eye, exposure drafts and consultation papers must be issued and the views of the public sought and addressed. If stakeholder responses reflect an overwhelming trend or opinion in one direction, such as from investors, directors or the profession, IAASB is obliged to listen and respond accordingly.

An effective system of shared responsibility for standard setting must be able to bridge the divide between principles and practice. Internal policies and procedures must ensure that principles upon which the system is designed are reflected in the way the organization actually operates and that cooperation with regulatory bodies is consistent and highly functional.

The reform proposals were designed to contribute to the achievement of global adoption of high-quality standards. Strong international standards of accounting, auditing, education, and professional ethics support effective and efficient capital markets leading to lower costs of capital, higher investment, greater innovation and more job opportunities.

IFAC has made great progress since 2003. According to the Monitoring Group's 2010 "Review of the IFAC Reforms – Final Report," "virtually all of the changes called for by the Reforms have been implemented."

The Monitoring Group's 2010 review provided recommendations for improvement and I'm pleased to report we've made changes in key areas such as diversity, transparency, and accountability. IFAC's actions have included:

- Opening up the nomination process by removing the specified seats for transnational audit networks
- Agreeing to appoint an independent chair for the Ethics Board
- Providing complete information about the backgrounds, qualifications and affiliations of Board members on the IFAC website, which allows regulators and external stakeholders to have greater confidence in the Board's work
- Discontinuing the practice of proxy voting

Today, we continue to embrace evolution and respond to the changing environment. The Monitoring Group (MG) has recently issued a public consultation on the governance arrangements for standard setting—effectively, evaluating whether a standard-setting body's governance is “fit for purpose.” IFAC recognizes the importance of ongoing review and dialogue to enhance these governance arrangements. We welcomed the opportunity to respond to this consultation, and we hope the institutions represented here today will also respond.

In brief, in our May 4 letter to the Monitoring Group, IFAC recognized the importance of private sector/public sector shared arrangements for standard setting and restated its support for such arrangements. IFAC feels the value of such arrangements was reinforced by the results of the recent public consultations by the IFRS Trustees on its strategy and the Monitoring Board regarding IASB governance.

Let me also highlight IFAC's strong support for the notion of private sector/public sector sharing arrangements for international standard setting. It is IFAC's contention that there are risks to the public interest associated with any change to a set of arrangements that has no private sector input, provided there are appropriate mechanisms, such as the PIOB, in place to safeguard the public interest.

Finally, let me talk a bit about the IAASB and its evolution. I will speak in general term and Dan will cover the detail. In 2012, as today's global business environment involves increasingly complex financial reporting requirements, users of audited financial statements require additional, more pertinent information for their decision-making.

In response, the IAASB has undertaken a two-year initiative to enhance the communicative value and relevance of auditor reporting.

This project will include the revision of the ISA 700, "Forming an Opinion and Reporting on Financial Statements," and any appropriate, consequential changes to related ISAs, such as ISA 260, "Communication with Those Charged with Governance."

As I've discussed, early engagement with global stakeholders on key issues is critical to the success of any project and this one is no different.

Consultation plans include roundtables scheduled for later this year as well as other outreach and communications activities. I welcome all of you to participate in this process and we look forward to reviewing input from the audit and assurance communities.

In conclusion, I mentioned before that the status quo is not an option and discussed why it is important to seek collective, positive global solutions. It is my hope that what I've shared with you today shows that IFAC is clearly focused on the destination, not the journey.

More improvements will be made because change is constant, which reminds me of a quote from former British Prime Minister Harold Wilson, who once said: "He who rejects change is the architect of decay. The only human institution which rejects progress is the cemetery."