

**STEERING A STEADY COURSE THROUGH THE CRISIS:  
A LEADERSHIP ROLE FOR THE ACCOUNTING AND AUDITING PROFESSION**

**CReCER Conference**

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Good morning. As president of the International Federation of Accountants, IFAC, I want to thank you for joining us here this morning as we speak of issues that are critical not only to Brazil and Latin America but to the world. In addition, I want to extend greetings to our CReCER partner organizations – the World Bank, Inter-America Development Bank, IFAC member CFC and the six largest accounting networks – for all their work in the preparation of this week’s program.

As I was preparing to travel to Brazil, the IFAC staff has helped by providing me background information about the economy and other issues that quite relate to the country I am visiting. One of the things that step out in my mind about the background information I have received was the motto of São Paulo, “Non ducor, duco”; which as I understand correctly, means, “I am not led; I lead.” This speaks directly to the independence and the spirit and leadership in São Paulo and its people, and it forms the perfect background for me today, in choosing the themes that I would like to share with you.

There are four areas/four themes, of leadership that I would like to discuss. The first is: **Speaking out as the global voice of the profession.** The next is: **Showing the way to an improved financial infrastructure.** The third concerns: **Supporting SMEs and micro-entities that need extra care;** and, last, is: **Sharing tasks when collaboration is appropriate.**

Some of these themes have been touched on by other speakers and I would just like to take the opportunity to get the perspective from the accounting profession on what kind of leadership you can provide on these themes.

**[Leadership: Speaking Out When Your Voice Counts]**

I would first like to address the issue of speaking out, as a professional. In July of last year, IFAC organized an event that was unprecedented in our history – a special meeting on a single global issue – it was a summit of the member bodies of IFAC, coming from the G-20 countries, held in London in July. It was organized to see if we could achieve consensus by the profession on a set of recommendations to the G-20 leaders, in advance of their next meeting, which is going on, interestingly enough, at the same time that we are meeting here in Brazil.

The member bodies of IFAC in the G-20 countries agreed, as you might expect, on the importance of a single set of high-quality financial reporting, auditing, and ethics standards for listed and public interest entities.

We agreed to follow, in accordance, the same high-quality standards for financial reporting and transparency that they would expect of listed companies in the private sector, by following the International Public Sector Accounting Standards. And we called on governments, to consider the special needs of the small and medium enterprises, as they reform the financial markets. We didn't just speak purely on accounting matters. We feel the issues of governance and the worldwide financial infrastructure are also areas where accountants have something to say and should be heard.

### **[Leadership: Improving the Worldwide Financial Infrastructure]**

You will hear many references to financial infrastructure over the next few days—and about the economic crisis and the critical role of high-quality financial information. You will also hear about opportunities for Latin American businesses in the Middle East and Asia, especially China.

If Latin America is to take advantage of the opportunities offered by investors from these new markets, or even if it is to keep growing in this hemisphere, then it must continue the good work it is doing to build financial infrastructure.

Remember, there is no high-quality information without the work of accountants—and that is one reason why we play such a critical role in today's global financial system and global economy. We provide financial information that helps businesses and governments run properly. We provide investors and creditors with reliable information for decision making. We provide assurance services founded on integrity and independence.

IFAC and our member bodies, including those represented in this room, take pride in helping improve financial infrastructure worldwide, for the developed world, for emerging and developing nations, and in the public interest. The way we do this, is through standard-setting and auditing. We continue to work on getting a single set of high-quality auditing standards accepted and implemented around the world. A recent example of our work in this area is the Clarity Project, which has just been completed by the IAASB, which rewrote all of its auditing standards, the ISAs, in clear simple English so they can be better translated into other languages.

We also continue to work on influencing others. A recent success was the decision of the European Union to go issue a consultation paper on making the use of the ISAs mandatory throughout the European Union for listed companies. We have also been successful recently in receiving a letter of endorsement of ISAs from IOSCO, the organization of securities regulators.

In ethics, we have reinforced the independence area, and continue to set the standards in the areas of integrity, objectivity, professional competence, and due care.

We also reinforce the urgency of governments using public sector accounting standards based on IFRS—because, when governments become owners of public companies, it’s time for them to have the same transparency and recordkeeping that we expect from public companies. In emerging and developing economies, the quality of government financial reporting has been found to affect the stability of the currency and other investor considerations.

And, we back international financial reporting standards. We back the move by accounting regulatory bodies to converge local standards with IFRS throughout the world, and we have been instrumental in supporting the development of IFRS for SMEs, which were finally issued last July. And we have observed that there are still SMEs at the bottom of the hierarchy—very small entities and micro-entities—that consider the IFRS for SMEs too complex for their purposes, but understand that the IASB will weigh implementation experience during 2010-2011 and consider the need for amendments to the document.

### **[Leadership: Supporting Those who Need Extra Care [SMEs and Micro-Entities]]**

We believe in providing leadership by speaking out for those who have less of a voice, such as SMEs and even smaller entities, and the SMP accountancy professionals who support them. The people behind Latin America’s SMEs are known for creating more sustainable growth, jobs, and wealth than politicians or accountants could ever possibly do. The OECD says they account for 95% of enterprises, two-thirds of employment, and are a major source of new jobs in the economy. They turn innovation and agility into new products, new services, and new wealth for national economies. But they are often forgotten in the process of making policy, and in the process of making standards. In the best of times, SMEs have great difficulty in finding funding.

We understand that these smaller enterprises need extra care. We, at IFAC, try to provide some of that extra care by providing tools. IFAC’s Small and Medium Practices Committee provides guidance for using international auditing standards, supports IFRS for SMES, and makes suggestions that country stakeholders can use in determining how they will proceed toward global standards for SMEs. When IFAC made its recommendations to the G-20 prior to the Summit in Pittsburgh, we made sure to include a caution that the G-20 consider the needs of SMEs and do no harm to them, as they reform the financial markets.

We are, at IFAC, in the midst of a review of the SMP and SME structure within IFAC to see just how we might better serve that important sector of the economy. The reason we completed the survey in 2008, we found that the upward trend in SME development in Latin America is at a halt and that the outlook is uncertain, particularly in South America.

Most SMEs are privately held and often family run. They need assistance to help them develop modern and transparent management systems and strategies. They rely on small and medium practices often for guidance in financial matters and to help implement global best practices.

In times of crisis, the issues of SMEs are even greater. Banks are wary of lending to SMEs, partially because the regulatory framework doesn’t accommodate their needs, and partially because they do not have the quality financial information necessary to inspire their confidence and trust.

The accounting profession, including SMPs, can support them by serving as their trusted advisors, financial managers, and financial information preparers, as in preparers of financial statements—and independent providers of assurance opinions, audit opinions, and alternatives for smaller businesses.

As small businesses themselves, SMPs understand the problems of SMEs, and new regulatory proposals coming out of the G-20 need to consider their needs to ensure unnecessary or other burdens are not placed on them, to ensure the appropriateness of new standards to this sector, to ensure that consideration is given to their ability to meet the standards. And to ensure that the World Bank and IFAC initiatives have a balanced approach to SMEs in developing countries.

The next kind of leadership I would like to talk about is sharing a task.

### **[Leadership: Sharing a Task with Other Leaders (Working with the World Bank)]**

The types of changes that I have been talking about are pretty vast. We can't do it alone. To deliver the right assistance, being a leader sometimes means finding appropriate partners. One of those like-minded institutions just mentioned is the World Bank, of which we have had a great long-term relationship. We have worked with the World Bank for many years and we have supported one another's programs. The World Bank has shown support for IFAC's initiatives, and they have been invaluable. Among them have been: reforms of public financial management systems, and increased government accountability; adoption of accrual accounting where resources permit; establishment of appropriate professional infrastructures in developing and other countries; encouragement of the development of the right legal and regulatory mechanisms, as prerequisite for the implementation of standards.

These infrastructure building projects that the World Bank performed [are] a bulwark against fraud and corruption, and a significant resource to entrepreneurs, financial institutions, and public institutions.

IFAC, in support of the World Bank, has called on the G-20 nations to support the World Bank's ROSC initiative as a tool to assess markets, and to measure the effectiveness of economic reforms resulting from the economic crisis.

At the IFAC Accountancy Summit in July, World Bank Chief Financial Management Officer Tony Hegarty announced the hearing of a new program. He highlighted the urgent need to develop and strengthen the profession in developing and emerging economies as a key step in achieving financial stability. He announced that IFAC and the World Bank will work together to develop a new initiative to deepen cooperation in this area. Immediately following this presentation the summit of participants recommended that G-20 governments should partner with the World Bank and IFAC to establish a framework for a sustainable accountancy profession.

While working with the World Bank to change the game plan, we will also look for the support of other stakeholders—the Inter-American Development Bank, the large firms, and the professional bodies in Latin America—to build the capacity, creating infrastructure to develop financial systems and to combat corruption.

**[Conclusion – Steering Out of the Crisis]**

In conclusion I would like to get back to São Paulo's motto: "Non ducor, duco." "I am not led; I lead." Perhaps now you better understand why this seems such an appropriate motto for today's proceedings. At this crossroad for the world economy, the accountancy profession is positioned to take a leadership role in helping to steer our way out of the financial crisis: through high-quality accounting and auditing standards; through high-quality ethical standards; through an understanding and support of this important growth of SMEs; through its understanding of cooperation between the organizations represented here, and always, with the public interest as our guide.

Thank you very much.