

A NEW ERA FOR THE PROFESSION

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Mr. Prime Minister, Rt. Hon. Owen Arthur, President Kiddoe of ICAC, President Robinson of ICAB, distinguished delegates, fellow accountants, ladies & gentlemen. Good morning. Thank you very much for the opportunity to be here with you to discuss this new era for the accountancy profession and what the International Federation of Accountants (IFAC), together with its member bodies, are doing at a national, regional and global level to support professional accountants worldwide.

It is a great pleasure to be here again in Barbados. I would like to thank Mr. Garth Kiddoe, ICAC President, and Mr. Brian Robinson, President of the Institute of Chartered Accountants of Barbados, for the opportunity to speak with you today. As you know, Barbados is one of the first six members to join the Caribbean Single Market on 1 January 2006. I applaud this commitment to greater regional cooperation, lowering of trade barriers and harmonization of standards, as these are sure to lead to increased economic growth and development. "Sharpening the edge" indeed. I offer the congratulations of the world's accountancy profession to you, Mr Prime Minister, on an outstanding initiative.

Your commitment to the development of the accountancy profession is also to be commended. The IFAC Board recognized this commitment last week in Beijing when it formally acknowledged the Institute of Chartered Accountants of the Caribbean as a Regional Grouping of accountancy bodies. Throughout the ICAC's near twenty-year history, it has been a major force in encouraging regional cooperation and integration of the profession here in the Caribbean. Speaking at a conference in Trinidad & Tobago last month, Agustín Carstens, Deputy Managing Director of the International Monetary Fund, affirmed the importance of such a goal when he stated "The path to greater prosperity for the Caribbean lies in greater integration, within the region and with the rest of the world."

In recognition of the IFAC Board's acknowledgement of the ICAC and on the occasion of your 24th annual conference, I would like to present President Kiddoe with this plaque... We thank you, very much indeed, for your role in the development of our profession.

The ICAC spirit of cooperation and the extent to which the global accountancy profession is truly connected, are exemplified by five members of the ICAC also being member bodies of IFAC. They are:

- The Bahamas Institute of Chartered Accountants;
- The Institute of Chartered Accountants of Barbados;
- The Institute of Chartered Accountants of Guyana;
- The Institute of Chartered Accountants of Jamaica; and
- The Institute of Chartered Accountants of Trinidad and Tobago.

In addition, the ICAC's three affiliates – the Association of Chartered Certified Accountants, the Institute of Chartered Accountants in England and Wales, and the Certified General Accountants Association of Canada – are also IFAC member bodies. I see that the ACCA and CGA Canada are ably represented here today by Mr. Dennis Yeates, Mr. Allen Blewitt and Mr. Tony Ariganello.

The attendance of so many distinguished members of the profession here today is evidence that this is a new era for the accountancy profession in one very significant way: globalization has made our world smaller and our profession more interconnected than ever before. On the positive side, this means that we are able to benefit from each other's strengths and each other's expertise. On the other hand, we well know from personal experience that business or accounting scandals in one country have reverberations far beyond national borders. Indeed, we have seen how the issuance of new laws and regulations can cross oceans and continents.

Globalization has also made it vital that members of our profession share a commitment to similar values, similar goals and similar standards. This is in the best interests of our profession and, more importantly, in the best interests of the public that relies on our work.

IFAC's mission is designed, among other things, to articulate IFAC's values and the goals that are shared by our 159 member bodies in 120 countries. It states:

To serve the public interest, IFAC will continue to strengthen the worldwide accountancy profession and contribute to the development of strong international economies by establishing and promoting adherence to high-quality professional standards, furthering the international convergence of such standards and speaking out on public interest issues where the profession's expertise is most relevant.

In this era of globalization, IFAC has focused on four key areas that I would like to highlight for you now:

- Strengthening our standard setting and promoting ethical conduct;
- Achieving convergence with international standards;
- Serving the needs of small and medium practices and entities and those of professional accountants in business; and
- Supporting the growth and development of the accountancy profession worldwide.

Our initiatives in each of these areas are central to our mission to serve and protect the public interest. I believe they also reflect how we, as a profession, are addressing some of challenges of globalization. Let me begin with standard setting. IFAC sets international standards of auditing and assurance, ethics, education and public sector accounting. Over the past year, we have continued to increase global, public interest input into these processes through Consultative Advisory Groups (CAGs) and other means and enhanced the transparency of those processes by including more information on the IFAC website (www.ifac.org). In addition, the roles of the CAGs to the

auditing, ethics and education standard-setting boards have been expanded and enhanced. All three CAGs now have independent chairs and the meetings of the CAGs are now open to public observers.

In the area of auditing standards, the International Auditing and Assurance Standards Board (IAASB) has undertaken a significant project to improve the clarity and structure of its standards. This project is vital to achieving convergence – and to putting our profession, whether here in Barbados or in my home of Great Britain, on a level playing field.

Last October, the IAASB issued four exposure drafts of proposed standards re-drafted using its new drafting style. This new style was developed based on input it received at a forum in July 2005 and through responses to its 2004 Proposed Policy Statement and Consultation Paper on Clarity. These proposed new standards are the first to be issued as part of an ambitious program to make IAASB standards more understandable and capable of being translated, which is essential to achieving convergence.

In March, the IAASB issued a re-exposure draft of the proposed International Standard on Auditing 600 (Revised and Redrafted), *The Audit of Group Financial Statements*, designed to enhance the quality of audits of group financial statements. Following earlier consultations, the IAASB has modified the proposals and reissued the exposure draft to address issues related to the extent to which the group auditor needs to be involved in the audits of components that are audited by other auditors, whether these auditors are

independent of the group auditor (unrelated) or belong to the group auditor's national or international firm or network of firms (related auditors). The exposure draft can be downloaded from the IFAC website. Comments are requested by 31 July 2006, and I encourage you to review the exposure draft and to submit comments on this very important document.

In developing its International Standards on Auditing, the IAASB reaches out to its stakeholders. In addition to the input it receives from the IAASB Consultative Advisory Group, the IAASB meets annually with the national auditing standard setters, from countries around the world, to discuss matters of convergence, collaboration on projects and sharing of resources. The IAASB also actively seeks input on matters of importance to small- and medium-sized accounting practices (SMPs) and to small and medium entities (SMEs).

We at IFAC believe that it is vital to support SMEs and SMPs because they are drivers of economic growth and development. SMEs are especially important to the economic health of many nations here in the Caribbean. There are well over half a million SMEs in this region alone, and the majority of those SMEs are in fact micro-entities, having 10 or less employees.

IFAC's Small and Medium Practices Committee represents the interest of SMPs and the SMEs they serve. To help to address the challenges and opportunities facing SMPs and SMEs, the committee is hosting a forum in Hong Kong on 3 July to discuss how best to reflect SMP/SME issues in

accounting, auditing and ethics standard setting, as well as how SMPs can best contribute to the growth of SMEs.

The SMP Committee also provides regular input to the standard-setting projects of the IAASB and of the International Accounting Standards Board (IASB), which develops International Financial Reporting Standards (IFRSs). One of the IASB's current projects is exploring the possibility of developing simplified accounting standards for SMEs. IFAC believes that the goals of standard setters, like the IASB and the IAASB, should be to develop succinct, relevant and understandable guidance that eases the compliance burden on SMEs and ensures that benefits exceed costs. This essentially means that the costs of preparing, auditing and disseminating financial statements should be proportionate to the information needs of the users of those financial statements.

Concerns over the high costs of complying with full IFRSs have prompted many countries, particularly those with developing economies, to look at alternatives to international standards or to delegate standard setting to organizations that may not be appropriate for such a role. Such actions are not in the public interest and, therefore, it is critical that standard setters be conscious of the effect of compliance costs on small and medium entities.

IFAC expressed these views in its comments on the IASB discussion paper, *Preliminary Views on Accounting Standards for Small and Medium-Sized Entities*, which set out and invited comments on the Board's preliminary views

on the approach to the project. At the January 2005 IASB meeting, the IASB reaffirmed its approach to SMEs. The responses to the discussion paper showed a clear demand for IASB SME standards and a preference, in many countries, to adopt global SME standards rather than locally or regionally developed standards. The IASB is proceeding with the development of an exposure draft of SME standards, which it plans to issue later this year.

In developing its International Standards on Auditing, the IAASB is not following the IASB model, for some significant public interest reasons. Both the IAASB and the IFAC SMP Committee recognize that an audit is an “audit” and if a company requires an audit report, the auditor is responsible for carrying out sufficient work to form an opinion. The IAASB, therefore, has no plans to develop modified or light audit standards for SME audits. Recognizing, however, the concerns of SME auditors about the challenges of understanding the body of ISAs and keeping up with changes, the IFAC Board has approved the development of an ISA implementation guide aimed at assisting SMP practitioners in coming to grips with the complexities of ISAs in applying them to SMEs. At the IFAC Board meeting last week, we approved proposals for the development of the guide. It is anticipated that the guide will be developed over the next 18 months.

In addition, the IAASB will include, where appropriate, specific guidance for SMEs in the development of its standards. This will assist auditors of SMEs in understanding those aspects of the standards that may be complex or only applicable to larger public entities.

While IFAC recognizes that certain standards, such as those for accounting, should be appropriate for the size of the entity, we also firmly believe that there are areas such as ethical guidance that must be uniform and consistent for all accountants the world over, whether their organization employs ten people or ten thousand.

In June 2005, IFAC's International Ethics Standards Board for Accountants released an updated international *Code of Ethics for Professional Accountants*, further emphasizing the five fundamental ethical principles. These are integrity, objectivity, professional competence and due care, confidentiality and professional behavior. The revised Code is set to take effect on 30 June 2006, and professional accountants signing audit reports on or after 30 June will need to comply with the independence requirements set out in the Code.

The Ethics Standards Board is also engaged in ongoing work to ensure that all professional accountants – whether they work in public practice, business or government – have clear, relevant and high quality ethical guidance. The Board is currently addressing issues such as audit independence and whistleblowing and is in the process of developing new guidance for professional accountants in government and in business.

IFAC's International Accounting Education Standards Board is also focused on ethics. It is in the process of developing a tool kit and an International Education Guideline to assist member bodies, academic institutions and

others in instilling a strong ethical foundation in the accountants of tomorrow. The guideline will offer recommendations for good practice models of ethics education, while the tool kit will provide practical tools – such as sample course outlines, teaching notes and case studies – to be used by member bodies and educators. The tool kit will be provided to member bodies in the coming weeks and the proposed guideline is expected to be issued in early 2007.

The Education Standards Board is also set to release this month a new International Education Standard 8, *Competence Requirements for Audit Professionals*. The new standard will require all IFAC member bodies to ensure that professional accountants acquire and maintain the specific capabilities required to work as competent audit professionals. The new standard will also prescribe specific competence requirements for transnational audit professionals. You can view this new standard on the IFAC website as soon as it is released.

We at IFAC are also focused on strengthening the transparency and accountability of the financial reporting of governments and of other public sector entities. Through the International Public Sector Accounting Standards Board, IFAC develops International Public Sector Accounting Standards, which are designed to improve public sector financial management and accountability. We view this as an increasingly important area of IFAC activity. The IPSASB is currently addressing key issues for public sector accounting,

including accounting for social policy obligations of governments, non-exchange revenue and budget reporting.

The IPSASB recently released a proposed standard on accounting for non-exchange revenue. Many public sector entities derive most of their revenue from non-exchange transactions – including taxes and transfers, such as grants, appropriations, donations, and fines. The exposure draft proposes requirements for the recognition, measurement and disclosure of revenue from non-exchange transactions, and also includes definitions of: taxes, a taxable event, expenses paid through the tax system and tax expenditures.

The IPSASB also recently released a new information paper on the United States' experience in making the transition to the accrual basis of accounting. The paper identifies the benefits of this and highlights the challenges in developing and implementing an accrual based accounting system. We believe that this paper will be useful for governments considering implementation of the accrual basis.

I congratulate you, Mr. Prime Minister, on the transition of the Barbados Public Accounting System to an accruals basis - a worthy example to the world.

An important IPSASB objective is facilitating convergence with International Financial Reporting Standards, upon which the IPSASs are based, and with statistical bases of financial reporting. Last year, the IPSASB issued exposure drafts further to converge its standards with IFRSs and with statistical

reporting bases. The IPSASB is making great strides in its convergence efforts. An increasing number of entities worldwide, including the World Bank and NATO, are using IPSASs and most recently, the United Nations indicated that it will be proposing to its General Assembly, later this month, that these standards be used for its financial statements.

In consultation with IFAC boards and committees, and other relevant interested parties, IFAC staff is further developing the concept of “international convergence.” The objective is to develop guidance to accompany IFAC’s Statements of Membership Obligations (SMOs), which require IFAC members and associates to use their best endeavors to incorporate international standards set by IFAC and by the International Accounting Standards Board into their national standards. The SMOs, which also require member bodies to implement quality assurance and investigation and discipline programs, form the basis of IFAC’s Member Body Compliance Program.

The Compliance Program supports the development of high quality auditing, accounting, ethical, educational and related quality assurance and disciplinary standards in IFAC member bodies throughout the world. The program is intended to guide accounting institutes in the full spectrum of their professional responsibilities and to demonstrate a shared commitment to our profession’s values of integrity, transparency and expertise.

Part 1 of the Compliance Program, a fact-based questionnaire to assess the regulatory and standard-setting frameworks of IFAC member bodies, is now

complete. Responses have been submitted by all 153 active IFAC members and associates – including the five ICAC member institutes that are members of IFAC. Nearly all of these responses are now posted on the IFAC website and I encourage you to review them.

Part 2, the SMO Self-Assessment Questionnaire, was launched last December and member and associate responses will be posted on the IFAC website during the next few months. They will provide a valuable global snapshot of the accountancy profession from a standards perspective. Additionally, they will be used to 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 the questionnaires will demonstrate the global 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 this era of globalization and in this complex environment in which we all work.

This focus on convergence, which I well that recognize that the ICAC shares, is fundamental to all IFAC standard-setting activities. We firmly believe that it is in the public interest to have a single set of international standards, of the highest quality, set in the public interest by an international expert body which transparently consults with, and recognizes the legitimate interests of, the international community. This is an important issue for both developed and developing countries, both here in the Caribbean region and throughout the world. The IAASB, IFAC's Education and Ethics Standards Boards and our

International Public Sector Accounting Standards Board develop standards that do meet these requirements.

The Public Interest Oversight Board, formally established in February 2005, oversees these standard-setting activities (except for the IPSASB), as well as the IFAC Member Body Compliance Program. Last September, the PIOB approved the due process and working procedures for these standard-setting boards, which, I believe, will build further confidence in our standards. In December, the PIOB approved IFAC's nominations to the IAASB and the Ethics and Education Standards Boards. The due process and working procedures and the board compositions are posted on the IFAC website in each board's area. In addition, the PIOB has just released its first public report, highlighting its first year of oversight of IFAC's public interest activities. I encourage you to read the report, which is available at <http://www.ipiob.org>.

In order to achieve its goal of developing a high quality profession that meets the public interest, IFAC must ensure that it supports the roles of all professional accountants. For this reason, over the past year, we have reached out to accountants in developing nations and to professional accountants in business.

Professional accountants in business play a vital role in supporting global business and contributing to economic growth and stability. To give you a sense of the size of this constituency, more than 50 percent of the members

of IFAC member bodies, or nearly 1.3 million accountants worldwide, are professional accountants in business.

To provide PAIBs with one-stop access to current information on topics of interest to them, IFAC is preparing to launch, in October, a new web-based global knowledge resource. This resource center will feature a powerful Internet search engine that will enable users to search a key term or phrase to access information on a variety of topics, including budgeting and planning, corporate governance, internal control, and strategic management accounting. In addition, this electronic resource will be expanded early in 2007 to serve the information needs of accountants in small and medium practices. More details on this new resource center will be provided to member bodies in the next few weeks.

IFAC's PAIB Committee has also developed draft new guidance to assist professional accountants in business in carrying out their roles both effectively and with integrity. The exposure draft, *Guidance for the Development of a Code of Corporate Conduct*, is designed to help professional accountants in business in the establishment and implementation of corporate codes of conduct.

In addition, in late May, the committee released a new information paper on business planning for SMEs. Entitled *Business Planning Guide: Practical Application for SMEs*, the new guide includes information on how to develop a corporate values statement and to manage business risks. In addition, it

describes how the business plan may serve as a performance tool on an ongoing basis and support a business in obtaining external funding. This new document, along with all IFAC standards and guidance, can be downloaded free-of-charge from the IFAC online bookstore. I urge all of you here to visit our website to access the guidance we have available.

IFAC is committed to ensuring that all professional accountants, in every country of the world, both developed and developing, have the tools that they need to face the challenges of the new global economy.

Because IFAC is a global organization, and because it is predicted that 95 percent of the world's population growth will occur in developing nations, we have made strengthening the profession in those nations a key objective. Our position is this: we have a fundamental role and responsibility to play in fostering progress in the developing world, in eradicating poverty and in building prosperity. Establishing a sound and viable accountancy profession is a critical step in building a sound financial infrastructure and addressing these issues. We welcome assistance from established accountancy groups, such as the Institute of Chartered Accountants of the Caribbean, in this effort to grow and develop our profession worldwide.

IFAC's Developing Nations Committee is leading our effort to build accountancy capacity around the world. The committee will hold a forum in Kenya, in September, on the development of the accountancy profession in developing nations. The forum will provide an opportunity to discuss the

challenges and opportunities in Africa and to address issues related to the further development of the accountancy profession in Africa. The output of that forum will, I believe, have relevance to other developing nations around the world.

The committee is also engaged in the process of 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.

This project follows the release, in December 2005, of new guidance entitled *Establishing and Developing a Professional Accountancy Body*. This good practice guidance covers the roles and responsibilities of a professional body, education and examination, and capacity development. It addresses a range of situations, including where the accountancy profession does not 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.

Tools such as this are an important way that the accountancy profession can support economic growth and stability, which in turn can reduce poverty and improve the quality of life for citizens.

Our Developing Nations Committee is holding its meeting here in Barbados following this conference and is looking forward to meeting with representatives of ICAC and the Institute here in Barbados.

In addition to working with developing nations, accountants in business and small and medium practices, IFAC has built and maintained a key partnership with the Forum of Firms, which represents over 20 global networks and associations of public accounting firms. The members of the Forum of Firms have committed to the use of ISAs and the IFAC Code of Ethics for transnational audits. Additionally, these firms have committed to use the IAASB's International Standard on Quality Control 1, which establishes a high quality standard for the quality control systems within the firms. This commitment to IFAC standards and to the promotion of high quality and consistent performance was reinforced in February 2006 with the approval by the IFAC Board of a new constitution for the Forum of Firms. The new constitution updates membership requirements to emphasize the firms' commitment to audit in accordance with the IAASB's International Standards on Auditing, and all members of the Forum must show that they meet all the requirements to be deemed full members.

Accountants and accounting firms in countries throughout the world have an important part to play in contributing to economic growth and stability. Here in the Caribbean region, it is recognized that there are both important challenges and real opportunities. According to the World Bank report, *A Time to Choose:*

Caribbean Development in the 21st Century, poverty and unemployment rates in the region overall are falling, foreign direct investment averages a strong 20 percent of gross domestic product, and government spending on education, region-wide, has risen to 4.9 percent of GDP. In such an environment, the profession can do much to contribute to the growth of both individual enterprises and the economy as a whole.

As IFAC looks to the future, we are aware that the profession's reputation rests squarely on its ability to protect the public interest and to improve the transparency of financial markets. Ensuring high-quality financial reporting is an area where there is no room for compromise. The ICAC and the accountancy profession here in the Caribbean are vital participants in ensuring high quality, reliable financial reporting. The work that the ICAC has undertaken to strengthen the profession here in the Caribbean, your support of the convergence process and your dedication to quality assurance, through the Regional Monitoring Programme, will all help to ensure that financial reporting in the Caribbean will be of the highest quality, thus contributing to investor confidence. We are most grateful for your very active role in strengthening our profession and for your continued support for IFAC.

Together, we can make a difference. Together, we can serve the public effectively and strengthen capital markets. Together, we can contribute to stability and prosperity and to the reduction of poverty not only in the Caribbean region, but worldwide.

Thank you very much for this opportunity to speak with you today and for your attention.

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