

Keynote Speaker I Sempozyum Sunuř Bildirisi I

International Challenges and Recent Developments in Accounting Profession **Muhasebe Mesleęi İle İlgili Uluslararası Sorunlar ve Son Geliřmeler**

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I am delighted to be here in Turkey today. It is a real pleasure to visit your country again. A country rich in culture and rich in history and one that is poised to take on even greater significance in both the European and the world economies.

The same can be said for the international accountancy profession. All of us, each and every accountant around the world, each and every accountant in this room, is, I believe, standing on the edge of a new frontier for our profession. Globalization of the economy – of finance and production and trade – has brought with it greater awareness of the value which our profession can deliver at all levels – as professional accountants in business providing strategic and financial direction, as professional accountants in practice providing external assurance, as professional accountants in the public sector strengthening governmental accountability and as entrepreneurs in small and medium practices and enterprises who contribute so much to the development of local economies.

The force of globalization and the resulting changes in business development and international trade are requiring that we continually rethink our role, our responsibilities and the value that we ultimately deliver. There are paths we have yet to forge and expectations that are still to be clarified. But what we know for certain is that there appears to be greater awareness than ever before about the value of our profession to business development and growth, to fiscal responsibility of government and to economic stability and growth worldwide.

Professional accountants in Turkey, including those who are members of The Turmob and the Expert Accountants Association of Turkey (EAAT), share center stage with the other 2.5 million members of IFAC member bodies – accountants like yourselves who are faced with the challenges of delivering quality and acting with integrity each and every day. IFAC’s Board and Council stays focu-

sed on the challenges of accountants worldwide through the representation of your interests by individuals such as Recep Pekdemir. Recep is a very able and articulate spokesperson, both for the profession globally and for the profession in Turkey. He has served on IFAC's Education Committee and Professional Accountants in Business Committee, he has participated in IFAC's annual meeting with chief executives of member bodies and he has attended recent Board meetings, as an observer, in his role as the Chair of the 2006 World Congress of Accountants Organizing Committee. We very much appreciate and admire Recep's dedication to the accountancy profession, both nationally and internationally and that of your World Congress Organizing Committee. We will support you in any way we can and I personally look forward to a longer stay in Turkey during the 2006 World Congress, to be held in Istanbul in November 2006, when I will have more opportunity to enjoy your country and to meet with more of you personally.

The IFAC leadership never forgets that ours is a profession of people. What unites us is not simply shared technical expertise, but rather a shared commitment to a common set of values, common objectives and a mission to serve the public interest.

IFAC has 163 member organizations in 120 countries, representing more than 2.5 million accountants in public practice, business and commerce, academe and the public sector. Each one of these organizations is part of the global effort to strengthen the accountancy profession and to contribute to economic development and stability worldwide. Indeed, I believe that this is the international profession's greatest challenge and IFAC's most important role is to assist all our members in this effort. Stable economies are vital to building an investment climate of trust and it is only through such trust that countries can attract the capital they need to improve the quality of life for their citizens.

Turkey knows first-hand of the challenges to create an economically stable environment. Since the economic crisis of 1999, your country has implemented institutional, governmental and economic reforms to move gradually from crisis to recovery and other countries have seen that you have made significant progress in this regard. Less than a year ago, at your country's economic congress, the acting director of the International Monetary Fund stated, "The prospect of continuing macroeconomic stability and, with it, rapid and sustainable economic growth, is, I believe, firmly within Turkey's grasp."

We cannot lose sight of the fact that the process of economic recovery is an ongoing one, not only for Turkey but for many other countries around the globe, and one that requires collaboration and support from the public and private sectors, including the accountancy profession.

The accountancy profession plays a critical role in building an investment climate of trust, which is vital to economic stability and growth. It does so by first and foremost acting in the public interest.

IFAC's commitment to the public interest is reflected in our mission:

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.

I'd like to focus for a minute on what I mean by "public interest." It is a term that is used frequently, but not always with the same sense of purpose.

In the corporate sector, accounting decisions of public companies affect investors, creditors, employees and other stakeholders. As the financial problems of Enron, WorldCom and Ahold have demonstrated, the groups and individuals affected by accounting decisions go well beyond our traditional view of stakeholders. They include the average man and woman in the street. There is a clear public interest in the quality of financial reporting.

The public interest is also served by accountants creating wealth, working in business to drive strategy, efficiency and financial integrity; by providing advice on taxation that is supported by the law and provides full disclosure to revenue authorities; by helping to turn around ailing businesses, preserving ideas, jobs and the self-respect of those employees and their families whose livelihoods are saved.

In the public sector, the accounting methods used by governments in the areas of education, health and social services affect how these services are provided, who receives the services and the cost of these services. They affect the lives of each and every citizen at all stages of life.

At the international level, accounting policy prescriptions and standards of organizations such as the International Federation of Accountants, International Accounting Standards Board, the OECD, IMF and the World Bank influence how countries structure their capital markets and provide services to their citizens. They affect a country's accountability and, thereby, its future prosperity.

In all of these domains, accounting practice affects the economic and social health of the public. It is for this reason that IFAC takes its public interest responsibilities to heart, why they are embraced in its mission and why they remain a critical challenge for each and every accountant.

So how does IFAC help accountants to meet their public interest responsibilities and to address the challenge of contributing to – and most importantly, achie-

ving – economic growth and stability? I believe that we do so by focusing on four critical areas:

- Emphasizing the primacy of ethics in all that we do;
- Developing high quality international standards and promoting convergence to these standards;
- Supporting and participating in regulatory structures that result in high quality performance of all those involved in financial reporting; and
- Forming strong alliances, so that we can maximize the resources that will enable us to develop the profession, particularly in emerging economies.

Let me begin by commenting on ethics.

We must encourage and adhere to the highest ethical standards. We must live the values of integrity, transparency, and expertise. For accountants in public practice, this means putting the public interest ahead of the client’s interest. For those of you in business and industry, it means acting not only in the best interests of your shareholders but also those of the public. IFAC’s Code of Ethics for Professional Accountants provides guidance in this regard and our Ethics Committee is in the process of strengthening that Code of Ethics. At its upcoming meeting in June, the Committee plans to approve a revised Code that will establish five fundamental principles of professional ethics for all accountants and provide a conceptual framework for applying those principles. These fundamental principles are integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

It is these values that must and should guide us in the delivery of our work. And they are equally applicable to professional accountants in business as they are to professional accountants in public practice. Indeed, it is professional accountants in business who are in the front line in ensuring the fiscal and ethical soundness and accountability of commercial enterprises. Recognizing this critical role, the new code will also provide ethical guidance for situations in which accountants working in business encounter fraud or illegal acts. A new publication to be released by IFAC’s Professional Accountants in Business Committee within the next few months goes a step further. It provides examples of corporate ethical codes of conduct, drawing attention to the professional accountant in business’s role in establishing an ethical “tone at the top.”

My personal belief is that probity and profitability go hand in hand. Ethical conduct lies at the core of all business. We do business with those we trust; we get business from those who trust us. Ethics, therefore, are a driver of business growth which demands attention from boards and investors alike. Similarly, society accepts those that it trusts and ethics are a driver of the social and political acceptability of doing business in corporate form.

The opposite of behaving ethically, is behaving corruptly. And it is corrupt behavior that does, in fact, impede economic development and prosperity.

In addition to each and every accountant making a personal commitment to integrity, transparency and expertise, we must also encourage sound and transparent government operations. For example, a lack of transparency in the way governments work and how they allocate and implement budgets can encourage corruption and make it difficult to hold governments to account. IFAC's Ethics Committee is also focused on providing significant new guidance for accountants in government, focusing particularly on their objectivity and independence when performing assurance services. Professional accountants in government, like those in business, have a significant role to play in creating an ethical environment of trust and accountability.

I will now move on to my second point, the need to develop high quality international standards, encourage adherence to those standards, and strive for convergence.

High quality standards of financial reporting, auditing and ethics underpin the trust that investors place in financial and non-financial information alike and thus, facilitate investment and play an integral role in contributing to a country's economic growth and stability.

The International Auditing and Assurance Standards Board develops high quality auditing, assurance, quality control and related services standards, providing global benchmarks for the international profession to improve the quality and uniformity of practice by professional accountants and to contribute to building public confidence in the auditing profession. Well over 70 countries use or rely on these standards as the basis of their own standards.

IFAC's education standards help to ensure that there are competent professional accountants worldwide, thereby increasing confidence in the profession. And our international public sector accounting standards are instrumental in ensuring that governments are clearly accountable to their constituents. As IFAC seeks to make changes for the better, we recognize that we will only be effective if we can achieve convergence to international standards. Indeed, convergence is vital to economic development.

I firmly believe that having a multiplicity of accounting, auditing and other standards around the world is against the public interest. It creates confusion, encourages error and facilitates fraud. The cure for those ills is 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 recognises the legitimate interests of, the international community. The IAASB, the IFAC Education and Ethics Committees and our International Public Sector Accounting

Standards Board develop standards that meet these requirements. They ensure that there is a great deal of public input in the process, by exposing their draft standards for public comment, by having public members serve on their committees and by having consultative advisory groups that comment on their projects and priorities.

Public input also helps our standard-setting groups to identify the issues that have the greatest public interest ramifications. Consideration of the public interest is a key driver in prioritizing the work of committees and boards. For example, IFAC's International Auditing and Assurance Standards Board has a formidable program in place to improve the clarity of its standards. At its meeting in March, the IAASB further developed this project and also approved four exposure drafts proposing new guidance designed to enhance the quality of group financial statement audits, independent auditor reports, and communications between auditors and those charged with governance... all critical issues today.

The IAASB also is dedicated to operating as transparently as possible and I would venture to say, is one of the most transparent standard setters in the world. IAASB meetings are open to the public and agenda papers, background documents and meeting summaries are posted on the IFAC website. Visitors can view project histories and may download audio recordings of IAASB meetings. They can also download IAASB exposure drafts and view all comments made on those drafts by regulators, firms, standard setters and others. Both IFAC's Ethics and Education Committees operate in a similarly transparent manner.

These committees, most notably the IAASB, have also focused on strengthening their operations and processes. The IAASB now has a full-time chair, John Kellas, who has a long history of service to auditing, both in the UK and internationally.

The IAASB has also increased its technical support in order to channel energy into areas that most seriously touch on the public interest.

As well as these initiatives, the IAASB makes it a priority to reach out to other stakeholders. In February, the IAASB hosted its fifth meeting with national standard setters. Standard setters from ten countries attended the meeting including, in the case of the United States, both the PCAOB and the American Institute of Certified Public Accountants' Auditing Standards Board. Extensive discussions were held on how to improve coordination of work agendas between the IAASB and national standard setters, international convergence, how the clarity of IAASB standards might be improved, the translation of ISAs, and the development of implementation guidance.

In addition, in September 2004, IAASB representatives met with representatives of 18 European national standard setters at a meeting hosted by the Fédération des Experts Comptables Européens (FEE). Among other matters, participants

discussed the audit implications of the first-time adoption of International Financial Reporting Standards and the efforts being taken in their respective jurisdictions towards convergence with International Standards on Auditing.

The IAASB has also engaged in ongoing dialogue with the European Union (EU). Recognizing that the European Commission's proposed Directive on statutory audit is expected to require the use of ISAs throughout the European Union for statutory audits in due course, the IAASB continues to discuss with the EC how it can assist them in achieving a smooth adoption of the ISAs. In particular, the IAASB regularly liaises with and updates the EU Committee on Auditing, on IAASB developments. The EC was influential in suggesting that the IAASB revise its standard for the auditor's report on financial statements and develop new standards and guidance in relation to the audit of group financial statements, suggestions that have been implemented.

In addition to the EC, the IAASB has participated in meetings of IOSCO's Standing Committee No. 1, the US PCAOB Standing Advisory Committee, and the Basel Committee on Banking Supervision.

The Education Committee is also reaching out to other stakeholders, such as the United Nations Conference on Trade and Development (UNCTAD), and is channeling its resources on issues of importance to the public. Just this month it released a proposed new International Education Standard on competence requirements for audit professionals, which applies to all those involved in the audit process. This is the first time that the Education Committee has focused on a specialist area.

In the area of public sector financial reporting, IFAC is also addressing a cutting-edge issue: disclosure about the receipt and use of external financial assistance by governments and other public sector entities. The IPSASB has released an exposure draft on this topic. It is also moving ahead on two projects on accounting for social policies of government: one dealing with pensions and another dealing with all other social benefits.

I realize that I have covered many areas in a short period, so let me emphasize that all of the above documents, any new or proposed IFAC guidance and information about the structure of IFAC can be downloaded at no charge from IFAC's website: www.ifac.org. Currently, most documents are in English but we are continually encouraging translations, particularly of international standards, and will be posting links to these translations on our web site.

The topic of translations leads me to my next point. How can we effectively achieve international convergence? Some of the solutions were presented in a special report on Achieving Convergence to IFRSs and ISAs, which was commissioned and released by IFAC last year. The report's findings, based on intervi-

ews with member bodies, regional accountancy organizations, and professional accountants in public and private practice, were presented at a Financial Stability Forum seminar in October 2004. The study called for greater attention to the needs of all constituencies that use or rely on international standards and the need for greater clarity in the development of the standards. It also identified translation as a vital issue in achieving convergence.

As an international standard setter with global convergence as an objective, IFAC also has a clear responsibility to consider and accommodate the needs of developing economies, small and medium enterprises, and private sector not-for-profit organizations. It is a responsibility that we take very seriously.

Two IFAC permanent task forces: the Small and Medium Enterprises Permanent Task Force and the Developing Nations Permanent Task Force, ensure that international standard setters are made aware of issues both from a small and medium enterprise perspective and from an emerging economy perspective. In fact, the SMP Permanent task force provides input to IAASB proposed guidance even before it reaches the exposure stage. It has provided input on 90 percent of the projects in the IAASB's work program and is providing valued input to the International Accounting Standards Board as well.

A conference, held last month in Prague, for member body and regional accountancy organization representatives, provided further direction to IFAC on how we can best meet the needs of developing nations and of SMPs and SMEs.

We received a clear message. We need to provide SMPs with the practical help that they need to serve SMEs and others effectively, including providing access to implementation guidance. This work will be of direct benefit to the large number of small enterprises and practices here in Turkey.

Achieving international convergence is not something we can do working alone. We are working with international organizations and with regulators to increase their understanding of the need for convergence of the standards by which we all operate. In the last year, we have received support for these efforts from groups such as the Financial Stability Forum.

Indeed, we will only achieve international convergence by working together with regulators— which leads me to my third point: To build an investment climate of public trust, we must accept and participate in regulatory schemes that can help us to demonstrate our commitment to high ethical and professional standards. Effective regulation, which addresses the needs of the public without unduly burdening the profession, is key to demonstrating the profession's credibility and creating an environment of trust.

Just over a month ago, the most fundamental regulatory change in IFAC's 28-year history was announced: the formation of the international Public Interest

Oversight Board: to oversee IFAC standard setting in the areas of auditing and assurance, ethics, and education and to oversee IFAC's Member Body Compliance Program. The PIOB was one element of a sweeping reform package that IFAC's leadership and international regulators developed, together, over a two-year period. The PIOB comprises individuals of the highest standing. Members are drawn from 7 countries and it is chaired by Professor Stavros Thomadakis.

To provide you with some historical perspective, IFAC's leadership, called a meeting with international regulators in February 2003 with a clear mandate: to determine how we could improve our international standard-setting practices and build confidence in the financial reporting process and the information it provides. Participants at that first meeting included representatives of the Basel Committee on Banking Supervision, the European Commission, the Financial Stability Forum, the International Association of Insurance Supervisors, the International Organization of Securities Commissions, and the World Bank. Over the last two-years, we held numerous meetings and discussions with these groups to determine the reforms that were necessary to bring about meaningful change in the setting of international auditing standards – changes that would contribute to enhancing the credibility of these standards and that would lead to increased convergence to them. We also consulted with international standard setters and member bodies. The result of this extensive consultative effort was the Proposals for Reform, unanimously approved by IFAC's Council in November 2003 and widely supported by international regulators.

The reforms have a threefold focus (1) strengthening the standard- setting processes of IFAC's Public Interest Activity Committees -- the International Auditing and Assurance Standards Board, the Education Committee, and the Ethics Committee; (2) enhancing the transparency of those processes; and (3) providing for public interest oversight.

The PIOB, which will be holding its next meeting at the end of this month, is in the process of mapping out its priorities. I will, however, highlight the PIOB's broad responsibilities. It will oversee IFAC standard-setting activities in the areas of audit and assurance performance standards, independence and other ethical standards for auditors, audit and assurance quality control standards and other audit and auditor-related standard setting activities. These areas will receive the PIOB's initial attention. Additionally, as mentioned earlier, the PIOB will also oversee the setting of international education standards and the IFAC Member Body Compliance Program, which is designed to encourage member body adoption of international standards and to assist them to do so, where necessary, through the development of action plans.

The PIOB will play a key role in several significant ways:

- It will evaluate the due process in IFAC standard-setting activities and report publicly;
- It will approve the nominations process for all Public Interest Activity Committees and provide the final approval of the chairs and other members of these committees;
- It has the right to require that a specific matter be added to the work agenda of a Public Interest Activity Committee; and
- It has the right to be an observer, with the privilege of the floor, at IFAC Board and other meetings where matters pertaining to Public Interest Activity Committees are being discussed.

In essence, the PIOB will have access to all information, discussions and processes related to IFAC standard-setting, with the sole exception of IFAC's International Public Sector Accounting Standards Board, which itself is in the process of exploring public interest oversight options for its activities.

This international regulatory framework is meant to complement national regulatory efforts. Much reform has occurred throughout the world, as well as in your country, and I think that we can be assured that it will continue, as countries struggle with how best to protect investors and the public and to meet the increasing challenges of globalization.

IFAC's Member Body Compliance Program can help countries to meet their public interest responsibilities. This program is designed to support the development of high quality auditing, accounting, ethical, educational and related quality assurance and investigation and disciplinary standards. As part of the program, IFAC collects information from member bodies on their regulatory and standard-setting framework. As members of IFAC, both Turkish accountancy bodies participate in this program, sending a signal to the global community that you are committed to the development of the accountancy profession, to high professional standards and to high quality practices. We are in the process of reviewing information received from Turkey and will be posting that information on our website once that process is completed.

Your organizations' commitment to the IFAC Member Body Compliance program, and indeed, to strengthening the overall accountancy profession, is about much more than meeting rules and regulations. It is about demonstrating a shared commitment to IFAC's values, our profession's values, of integrity, transparency and expertise – values that are vital, not only to accountants' performance, but also to building public confidence. Recent initiatives here in Turkey demonstrate your commitment to those values. You are dedicated to strengthening the accountancy profession. You have modified and sought ways to strengthen

your regulatory structure, to develop new training programs for prospective entrants to the profession and practicing professionals, to promote international standards and to increase your focus on quality control and on the application and enforcement of professional standards. I congratulate you on these efforts.

As Turkey, too, considers new regulatory changes, I urge you to consider how these changes will help us all. A well-balanced regulatory framework encourages the production of high quality financial information – financial information that will be of real value not only to investors, but also to policy makers who are faced with making decisions on how to allocate both financial and personnel resources to aid economic development.

Finally, to my last point. To generate economic growth and stability, to build an investment climate of trust, we must form alliances with those who share our concerns for developing high quality standards, strengthening financial infrastructures, enhancing the profession and raising the quality of life for citizens.

A major area of focus is on assisting developing nations in building a responsible accountancy profession and supporting the development of a financial infrastructure within which the profession will operate. IFAC's Developing Nations Permanent Task Force is identifying the specific countries it will begin to work with, 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. We recognize, however, that we cannot do this alone.

IFAC is already working closely with its member bodies and regional accountancy associations. We have also established strong relationships with the World Bank and the United Nations Conference on Trade and Development and we are actively building closer relationships with other funding and development agencies. More, much more, can be accomplished when we work together.

Lastly, IFAC remains a strong proponent of corporate governance reform and is involved in several corporate governance networks. Also, IFAC's Board is working closely with the Professional Accountants in Business Committee to determine how IFAC can best support PAIBs in carrying out their corporate governance responsibilities.

Before I close, I would like to remind all of you -- whether you are professional accountants in business or professional accountants in public practice, whether you work in a large accounting firm or a small one, whether you are employed by a large company or a small enterprise and whether you represent the interests of standard setters, regulators, government or the profession – there is much work ahead of us in building the accountancy profession, in taking the actions necessary to build investor confidence and thereby to contribute to capital mar-

ket growth and development. It is most certainly work that we must do together. And it is most certainly work that will reap benefits far greater than we can envision today. Benefits like greater credibility in the work we do and thereby in financial systems and in capital markets. Benefits such as a reduction in poverty and building a better quality of life for citizens around the world.

The international accountancy profession faces many challenges. But if we all remain squarely focused on our goal of serving the public interest, we will, together, successfully meet these challenges. Together, we can build the resilience which economies need in order to prosper in the modern world.

Thank you very much indeed for your attention. I now would be pleased to take your questions or your comments.