

Globalisation in Accounting

The Case of International Audit Regulation

Professor Anne Loft (Lund University)

At conference: "En Bransch i Omvandling"
30th September 2010

**Note: for current publications co-authored by AL
on global audit regulation and IFAC
see last 2 overheads**



Background

- **What is the effect of globalisation on accounting and auditing?**
- Today: Fascinating developments in global accounting and auditing regulation – seemingly moving towards 'one set of high quality' international standards for accounting and auditing – G20 pressing...
- Within context of developing global financial regulation
- Happening within framework of **New International Financial Architecture (NIFA)**
- **These developments contribute to globalisation**
- Much discussion of IASB; IFAC less studied, other bodies involved also rather less well known.



Contin.

- **The research reported here is linked to the IFAC history project: Book OUP 2011 (with Chris Humphrey, Manchester Business School).**
- **Book is based on interviews, observing meetings, many written sources – IFAC archives (limited), journalistic articles, academic articles etc.**
- **Eleven academic articles, book chapters, and other publications already completed (see two overheads at the end of this presentation.)**
- **Aim to be policy relevant as well as academic...**
- **Theoretical perspectives from global governance literature, law, politics ...**



Questions

1. What are the origins of the **New International Financial Architecture** and how did accounting and auditing become important within this?
 2. What kind of global regulation of accounting and audit has emerged?
 3. Can it 'work'? Standards are little use without implementation, adoption and enforcement !
 4. What are the contradictions and tensions?
 5. What effect is the current crisis have? Will something new and different emerge?
- **Here focusing on IFAC and auditing**
 - **NB. For IFAC website see: www.ifac.org**



1. Origins of NIFA?



- Development of "new international financial architecture" (NIFA) 1998-2001
- Gordon Brown – G7 – **no** to a global financial regulator.
- Post Washington Consensus - 'Solution' regime of standards & codes + transparency
- IAS/IFRS and IFAC's ISAs become 2 of the 12 key standards selected by FSF as important to securing financial stability (2000).
- (NB. Financial Stability Forum now Financial Stability Board)



FSF 12 Key Standards for Sound Financial Systems

- *Macroeconomic Policy and Data Transparency*
 - Code of Good Practices on Transparency in Monetary and Financial Policies IMF
 - Code of Good Practices in Fiscal Transparency IMF
 - Special Data Dissemination Standard/General Data Dissemination System¹ IMF
- *Institutional and Market Infrastructure*
 - Insolvency (being developed)² World Bank
 - Principles of Corporate Governance OECD
 - **International Accounting Standards (IAS)³ IASB⁴**
 - **International Standards on Auditing (ISA) IFAC⁴**
 - Core Principles for Systemically Important Payment Systems, Recommendations for Securities Settlement Systems CPSS /IOSCO
- **Market integrity**
 - The Forty Recommendations of the Financial Action Task Force/8 Special Recommendations Against Terrorist Financing FATF
- *Financial Regulation and Supervision*
 - Core Principles for Effective Banking Supervision BCBS
 - Objectives and Principles of Securities Regulation IOSCO
 - Insurance Core Principles IAIS



Volcker's Creed for Financial Reporting

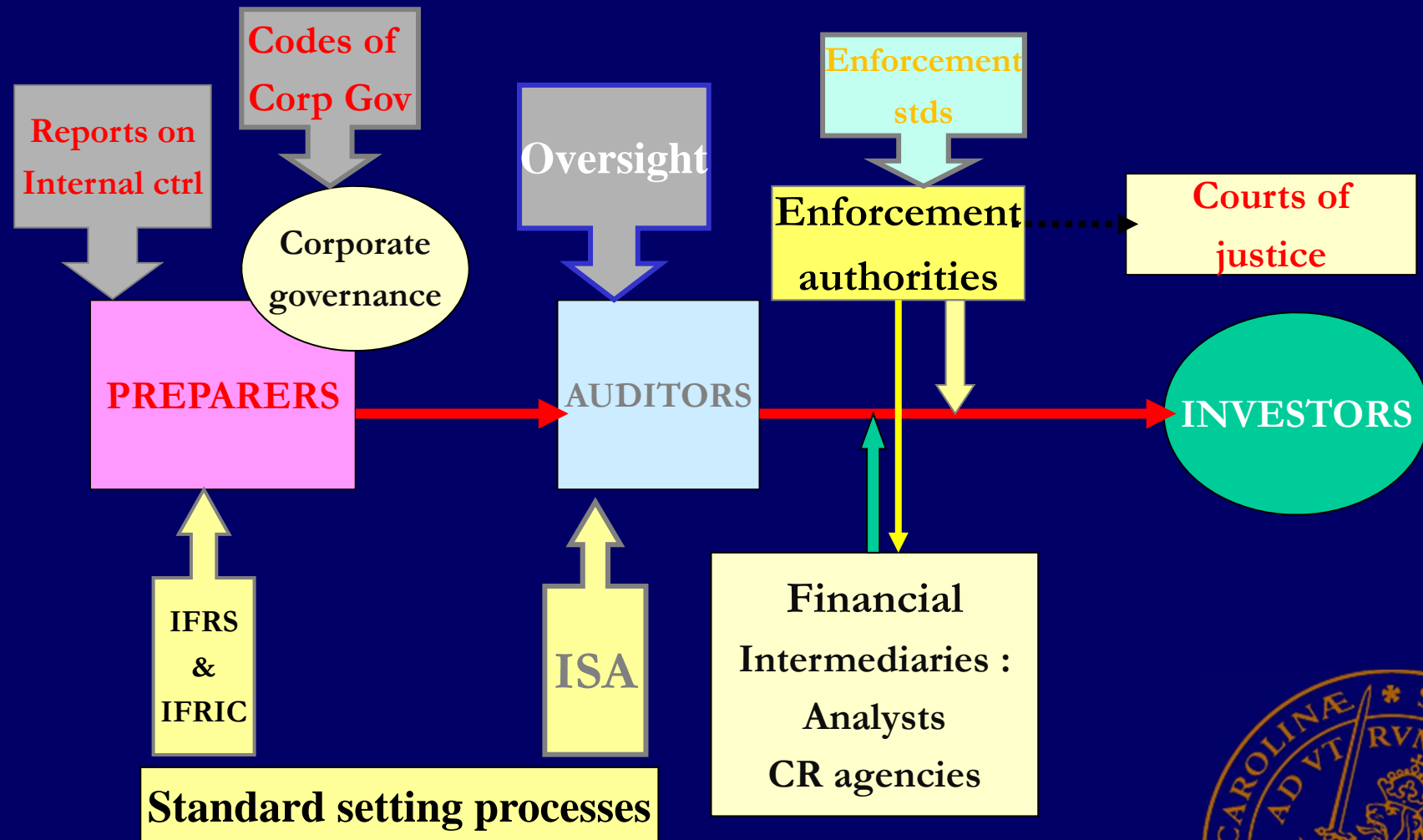
"Good financial reporting is essential to the functioning of capital markets and the productive allocation of economic resources..."

I confess to a certain mental image. I see the role of an auditor as the guardian of "truth in markets", acting in the public interest to maintain reliable and consistent reporting ... at the end of the day, the need is clear, the responsibility profound, and pride in an old and proud profession essential. That is my vision."

Paul Volker (chairperson of IASB trustees: Nov.2002)



Financial Reporting Supply Chain (Modified from Danjou, 2005)



SEC Concept Release on IAS (2000)

- The financial reporting infrastructure must include:
 - *Effective, independent and high quality accounting and auditing standards*
 - *Audit firms with effective quality controls worldwide*
 - *Profession-wide quality assurance*
 - *Active regulatory oversight*

International Regulators followed up on this idea



2. What kind of global regulation of auditing has emerged?

- What is Global Financial Governance?
- **”The contested interplay between market actors, *private authorities* and *public authorities* (state and international) that establishes the rules or boundaries within which global financial resources are mobilised and channelled towards economic, social and political activity”**
- (adapted from Germain (2007))
- **Involves many actors – both national, global and regional (here the EU is important).**
- **A sort of substitute for a World Financial Authority?**



2. What kind of global regulation of auditing has emerged?

Interlocked Actors

- **International Regulators**
 - Public authority, state and international
- **The Large Audit Firms**
 - Market, but also private authority
- **IFAC**
 - Private authority



The 'Official Community' AKA the 'International Regulators'

- **IFAC's Monitoring Group**
 - International Org. of Securities Commissions (IOSCO)
 - Basle Committee of Banking Supervision (BCBS)
 - International Assn. of Insurance Supervisors (IAIS)
 - World Bank
 - European Commission
 - (Financial Stability Forum, now Board)

**NOW also the International Forum of Independent Audit
Regulators (IFIAR)**



The Large Audit Firms

The 'other' face of the profession

- **Large Firms**
 - Refers to the Big 4 (PwC, E & Y, Deloitte, KPMG) + the 'next two' (BDO and Grant Thornton)
- **Global Steering Committee (GSC): 1999 – 2002**
 - Global Public Policy Committee (GPPC) 2002 – holds yearly "Global Public Policy Symposium" (GPPS) 2002 –
- **Important Committees**
 - Regulatory Working Group and Standards Working Group
- **Role of the GPPC**
 - Common interest in agreeing on problems concerning standards, funding for IFAC. Is this developing into a new form of self-regulation of profession at global level?
 - Large audit firms are at the same time embedded in IFAC...



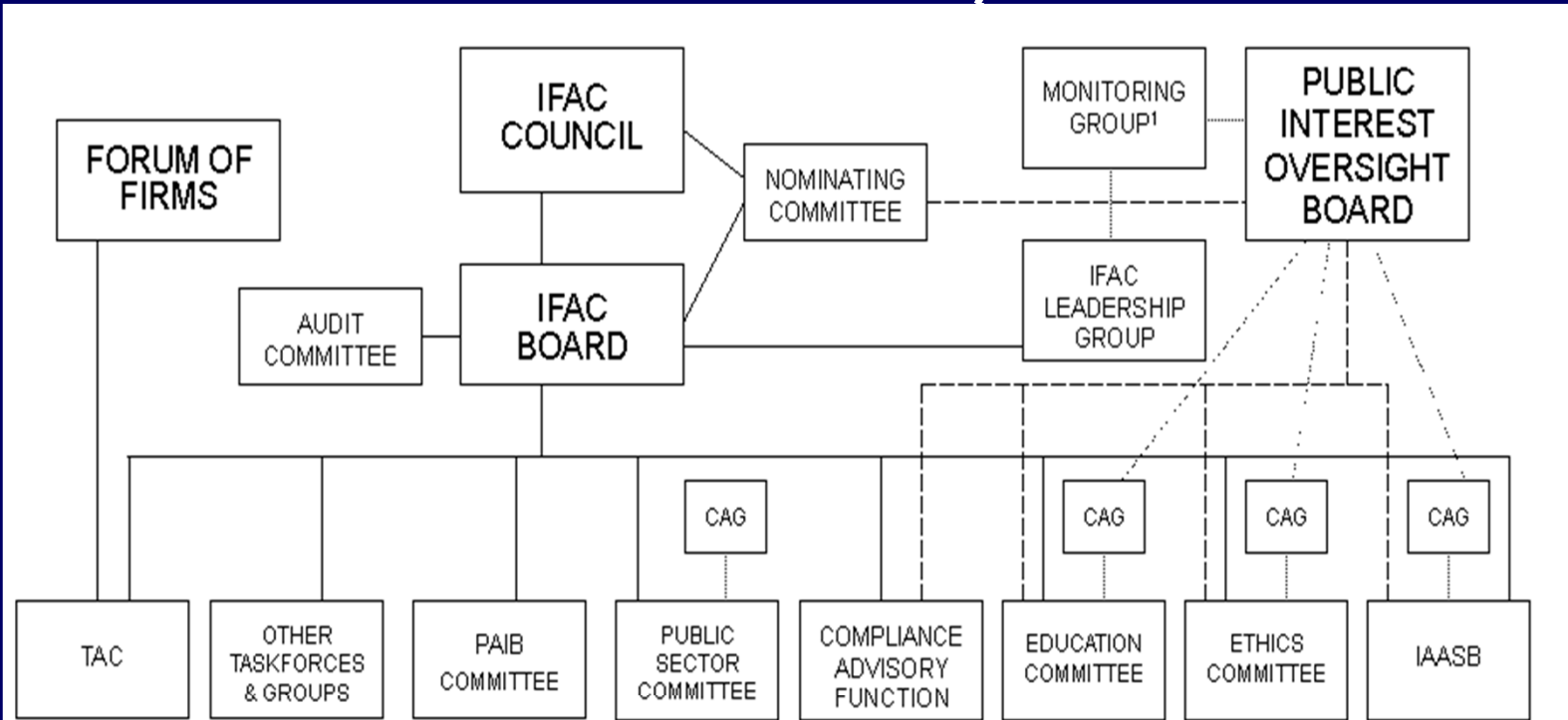
Developments in IFAC

With links to International Regulators and Large Firms

- Establishment of Forum of Firms (2000)
- From auditing guidelines to ISAs (2001)
- Reform of IFAC (2003-)
 - Monitoring Group
 - Public Interest Oversight Board (PIOB)
 - International Regulatory Liason Group (IRLG)
 - From "self-regulation" to "independent regulation"
- Close engagement with International Regulators
- Most important aim: to make ISAs international standards for the world of audit...



IFAC Governance Structure (Oct 2003)



KEY	
ACCOUNTABILITY	—————
OVERSIGHT	- - - - -
CONSULTATION/ ADVICE

¹ The Monitoring Group's ongoing relationship with the PIOB will be one of consultation and advice (Section 3), however, it will also have appointment powers and the authority to conduct effectiveness reviews (Section 13).



3. What are the Contradictions and tensions in audit governance structures: Can it 'work'? (i)

- **Global standards:**
 - But local implementation and enforcement needed... !
- **Cultural issues:** Inevitable!
 - Zeff (2007) – Culture, translation, business customs
 - Note: global independence standards -'harder to do' than ISAs
- **Overlaps:**
 - Several institutions trying to do the same job, (e.g. auditor oversight)
 - Leads to inefficiency and confusion (but could possibly be beneficial sometime)



What are the Contradictions and tensions in audit governance structures: Can it 'work'? (ii)

- **'Holes'**: Things and spaces and persons not included:
Un-cooperative states, organised financial mafia, new financial 'inventions' (what credit default swaps were at some time in the past), pseudo auditors
- **Multilevel governance problem**
Financial Reporting Supply Chain looks clear enough, but it has both international and national components in practice (and regional in the case of the EU)
- **Emerging, developing, transition economies-**
Lack infrastructure into which standards can be 'imported'.
See e.g. Tajikistan Accounting and Auditing Report on Standards and Codes 2009. Capacity issues.



Large firms, TAC

IFAC

PIOB

UN

OECD

WTO

IMF

World Bank

IFIAR

FSB

IAIS

IOSCO

BCBS

PCAOB

Big 4

FEE

EU/European Commission

PCAOB

Big 4

Other imp.nat. prof.assns

UK ICAEW
ICAS ACCA

PCAOB
US

Big 4



What are the Contradictions and tensions in audit governance structures? Can it 'work'? (iii)

- **How does all this work at all?**

- Argue that networks of knowledgeable people 'global professionals' and 'global regulators' (from 'disaggregated states') seem to be important
- Some 'supermen' are not only powerful at a particular point in time, but also through time...
- Individuals become important (and may indirectly help small countries like Sweden to have an influence on events
- **NB: Göran Tidström will be President of IFAC 2010-2012– the second Swede to hold the post! (the first was Bertil Edlund - 1990-1992)**
- The affordances of internet are incredibly helpful – to the work and to transparency – helping to give authority and legitimacy
- Role of World Bank in developing and emerging economies – making a framework for standards





Anatomy of a Professional 'Superman' - at the "leading edge of developments within the global profession"



- David Devlin is a partner in the Audit practice and **chairman of PwC's Global Regulatory and Professional Affairs Board**. He is also a member of the **Global Public Policy Committee (GPPC)** of the six largest international accounting networks.
- David is a member of the **European Commission's European Corporate governance Forum (ECGF)**. He is a member of **IFAC's International Ethics Standards Board for Accountants**, which is responsible for the profession's global ethics and independence Code.
- David is a member of the **Supervisory Board of EFRAG**, to advise EC on IFRS and influence the work of the IASB.
- He is the **past President of FEE**, the European Federation of Accountants (2005-2008). Source: PWC website 2010.

Involved with many different aspects of current regulatory developments: IFAC (and FEE), Big firms AND EU.





Anatomy of a Regulatory (and earlier professional) 'Superman': John Hegarty, World Bank

Main employment

- **1978-84:** Arthur Andersen (Ireland) (Chartered Accountant)
- **1984- 1986:** UEC – Technical Director
- **1987-1999** Federation of European Accountants (FEE) Secretary General
- **1999-** World Bank (Manager: Europe and Central Asia)
- **2008-** World Bank Center for Financial Reporting Reform (CFRR) in Vienna

Other posts (selection)

- **1987 – 1999:** Member of FEE delegations to Council of IFAC and member of IFAC task forces and US independence standards task force
- **1990s** - EU - committee member regarding GATS (accountancy)
- **1999-** Represents World Bank on IFAC's Monitoring Group and IAASB CAG Leads bank activities in the area of private sector accounting and auditing



What effect will the latest crisis have? Will something new and different emerge?

- **New calls for new structures: e.g. Robert Peston:**
 - “we are a million miles from having the political and regulatory institutions to help us contain the risks of globalisation”
- **From FSF to FSB, strengthening of IMF – looks like more of the same though...**
- **But what will the G20 impact be?**
- **Standards, surveillance, compliance regime (Wade, 2007).
New focus on compliance!**

- **A BRAVE NEW WORLD!**



Governing Audit Globally?

- Examining development of global audit regulation in a time of globalisation in the context of the development of the 'New International Financial Architecture' (NIFA) (global financial regulation)
- **Conclusion: A co-ordinated network governance of audit seems to be emerging which is bringing together international regulators and the international profession in an ongoing project attempting global governance in the audit arena**
- **MANY GOOD RESEARCH ISSUES IN THIS TOPIC**



Publications (1)

Anne Loft: Joint publications dealing with the International Federation of Accountants (IFAC), global audit regulations and related issues. (Please contact me if you want a copy of any of the hard-to-get book chapters!)

Note: Book under preparation (with Chris Humphrey, Manchester Business School) – “The Building of a Global Profession: The History of the International Federation of Accountants (IFAC) 1977-2010” Oxford University Press, Oxford, 2011.

Journal Articles

Humphrey, C., Loft, A. and Woods, M. (2009) "The Global Audit Profession and the International Financial Architecture: Understanding Regulatory Relationships at a Time of Financial Crisis." *Accounting, Organizations and Society* 34, no. 6-7 pp. 810-825.

Loft, A., Humphrey C. & Turley, S. (2006). In Pursuit of Global regulation: Changing Governance Structures at the International Federation of Accountants (IFAC). *Accounting, Auditing and Accountability Journal*, 19(3), 428-451.

Related article:

Jeppesen, K. K, and Loft, A. (2010, forthcoming) “Regulating Audit in Europe: The Case of the Implementation of the EU Eighth Directive in Denmark 1984-2006”. *European Accounting Review*

Chapters in Books

Humphrey, C. and Loft, A. (2011, forthcoming), “Standardizing global financial reporting: Global governance without global government?” In “Governing through Standards: Origins, Drivers and Limits”. Eds. Ponte, S., Vestergaard, J. and Gibbon, P. *Basingstoke, Palgrave*.

Humphrey, C. and Loft, A. (2009), “Governing Audit Globally: IFAC, the New International Financial Architecture and the Auditing Profession”. In "Accounting, Organizations, and Institutions: Essays for Anthony Hopwood". Eds. Cooper, D., Power, M. and Chapman, C. Oxford University Press. (contin.)



Publications (2)

Chapters in Books (continued.)

Humphrey, C. and Loft, A. (2009) "Globalisation in Accounting: The Case of the Development of International Auditing Regulation." In *Ett Smörgasbord med Ekonomistyrning och Redovisning: En Vänbok til Olof Arwidi*, ed. P. M. Andersson, P. Jönsson, G. Paulson and S. Yard, Lund: Lund Business Press.

Loft, A. and Humphrey, C. (2006). IFAC.ORG – Organizing the World of Auditing with the Help of a Website. In Hansen, H.K. and Hoff, J. (Eds.). "Digital Governance://Networked societies – Creating authority, Community and Identity in a Globalised World" (pp. 47-78). Copenhagen, Samfundslitteratur Press/NORDICOM.

Humphrey, C. Turley, S. and Jeppesen, K. (2006), "The International Federation of Accountants (IFAC): Private global governance in the public interest?" in Schuppert, G. F. (Ed.) "Global Governance and the Role of Non-State Actors", Nomos Verlag, Baden-Baden, pp. 245-273.

Other Publications on IFAC and Global Financial Regulation

Humphrey, C. and Loft, A. (2010). "The Complex World of Auditing Regulation". Q-Finance, Bloomsbury Publishing Plc. <http://www.qfinance.com/auditing-best-practice/the-complex-world-of-international-auditing-regulation?page=1#toc>

Humphrey, C. and Loft, A. (2010, forthcoming), "Audit Regulation" in "Encyclopedia of Financial Globalization", Ed. Veron, N., Oxford, Elsevier (18 p.).

Humphrey, C and Loft, A. (2009). "International Federation of Accountants" in "Handbook of Transnational Economic Organizations". Eds. Tietje, C. & Brouder, A. Die Deutsche Forschungsgemeinschaft.

Humphrey, C. & Loft, A. (2007) "The Formation of the International Federation of Accountants" *IFAC Newsletter* (Feb.); "IFAC's First Fifteen Years: 1977-1992" *IFAC Newsletter* (May); "IFAC in a Decade of Growth and Change, 1992-2001" *IFAC Newsletter* (Oct.); "IFAC 2001-2007: A Regulatory Renaissance" *IFAC Newsletter* (Dec.). (on ifac.org)

