

Contemporary Challenges Facing the Profession



**Institute of certified public accountants of kenya
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Introductory remarks

It is an honour to be invited to address the 18th Annual Seminar of the Institute of Certified Public Accountants of Kenya and a particular pleasure to be invited to speak on 'Contemporary Challenges Facing the Profession'.

In this presentation I shall begin by examining its title a little more closely. That will lead me to a discussion of the changing environment for the profession and that will, in turn, allow me to identify the most pressing challenges. I may even suggest some ways of meeting those challenges! Your Seminar papers include notes of this presentation and give full details of various publications and other sources to which I am about to refer.

First, I ought to put my remarks in context. As the Head of Auditing Practice at ACCA I have input to and national policy issues relating to auditing and assurance and to professional ethics. In this presentation I will draw upon the knowledge and experience I have of contemporary issues in several countries. I am not, however, an expert on Kenya or how these particular issues affect you; and so it is a challenge for you to take what I say and interpret it to your own needs. I would also like to make it clear that I am speaking today in a personal capacity not for ACCA. This is probably all to the good as it allows me to speculate, to make some controversial suggestions and occasionally to be completely wrong!

The title of this session

The title of this session was chosen with obvious care. In my preparation I had to think carefully about the words. What is meant by 'contemporary' and what is meant by 'challenge'?

At times like these I reach for the nearest dictionary.

'Contemporary' means happening at the present time. Something does not have to be new to be contemporary. Indeed, several challenges that I identify are not new.

Last year at ACCA headquarters in London I made a presentation to delegates from the National Audit Office of the Peoples Republic of China. They were interested in the impact of changes in UK legislation exempting some small companies from the requirement for audit. To put this in context I looked back some 3,000 years to the first written references (in the Western Zhou Dynasty) to auditing in China. In that sort of long timeframe, the abolition of smaller company audit in the UK could be seen as a partial reversion to the status quo. The audit requirement for all UK companies had been introduced a mere 50 years before.

It would be stretching the point to use the word 'contemporary' to describe something in the last 3000 years, but I think we need to examine several trends over the last 20 or so years and perhaps look forwards an equal number of years to put things in perspective.

In the dictionary, the word 'challenge' has two main meanings:

challenge (*EXPRESSION OF DOUBT*) 'a questioning or expression of doubt about the truth, legality or purpose of something, or the right of a person to have or do something'

challenge (*DIFFICULT JOB*) (the situation of being faced with) something needing great mental or physical effort in order to be done successfully and which therefore tests a person's ability

So this session could look at the former, or the latter, or indeed both.

There is a story told of a meeting of the top executives of the Sony Corporation in Japan. In the late 1970s, Akio Morita the founder and chief executive had been encouraging the Tape Recorder Operations Division to develop a new product. But, corporate profits were not good; other executives wanted the company to concentrate on their TVs and mainstream products. The new product was a tape recorder – that could not record. It was small enough to carry around – but to listen to it people had to wear headphones. Executives could see no demand for such a device. Developing a market seemed to be an insurmountable challenge. In fact, as we all know, Morita persuaded the rest of the Board to support the product and it was successfully launched with immediate impact. The Sony Walkman has sold in excess of 100 million and,

in its modern guise of CD, minidisk or MP3 player, continues to sell in huge numbers.

Challenges can have a very positive side to them. If we successfully meet challenges to our profession we are made stronger.

Now after 'contemporary' and 'challenge' I ought to mention the other words in the title 'the Profession'. Accountancy is a profession that is carried on around the globe. The International Federation of Accountants currently has 156 member bodies, in 114 countries, representing 2 million accountants. Although cultural and commercial environments may be very different, in many ways the challenges faced by accountants are the same wherever in the world they are.

The profession in a changing environment

I want to spend a little time looking at the general and commercial environment for accountants. About now it becomes apparent that this presentation is focussed more on practicing accountants than those in industry or commerce. However, everyone is affected to some degree or other by changes in the business environment.

The slide now displaying (*a rising curve*) is one that I hope you will find familiar. You will notice that the graph is lacking a little in labels. Let us place time along the horizontal axis. Imagine it begins about twenty years ago. What was the world like around 1980? Perhaps some events may place it in your memory.

Muhammad Ali was at the end of his boxing career. Moscow hosted the Olympics. Of course, then Moscow was the capital of the USSR – the fall of world communism, some ten years later, was perhaps the most important historical event of the last two decades.

Politicians coming into power then included Saddam Hussein in Iraq, Margaret Thatcher in the UK, and Robert Mugabe in Zimbabwe. Ronald Reagan was on his way to the Presidency of the United States.

For the first time, world news was available 24 hours a day on the CNN TV service and MTV began playing videos of the music popular with those enjoying their Sony Walkman.

For the well-equipped office the 3M yellow Post-it Note made its first appearance, as did the IBM PC. The IBM PC was running MS DOS 1.0, and Bill Gates was just a struggling young programmer. If you wanted to really

show off at the corporate level you would have a computer boasting a 1 Gigabyte hard disk: as big as a large refrigerator, weighing 150 kilos and costing \$40,000 it was advanced computer engineering writ large.

Now how about the vertical axis? Indeed, ignoring the vertical scale for the moment, what does the graph show? There are several possibilities and I have collected some suggestions in the next few slides. I have divided these into the following areas:

Areas of growth

- Humanity and the environment
- Transport, communications and technology
- Trade and finance

As important as these changes are, it is future developments that the accountancy profession has to consider if it is to prosper for the foreseeable future.

Humanity and the environment

- The population of the world
- Life expectancy
- Numbers in education and adult literacy rates
- Global warming
- Energy use and pollution
- Attacks on ecosystems

The detail behind the changes I am going to discuss can be found in a recent publication 'Tomorrow's Markets – Global Trends and Their Implications for Business' issued by the World Resources Institute, the World Business Council for Sustainable Development and the United Nations Environment Programme. (See *the Resources section at the end of these presentation notes.*)

There are obvious regional and national differences. But there are some striking projections being made at a global level.

The current world population is around six billion people. The population grew by nearly 50 percent over the last 25 years and is projected to increase to nearly 8 billion by 2025. Globally, the average lifespan is estimated to have increased over the last 50 years by two fifths and now stands at 66 years.

Life expectancy is longer in the developed nations and their lower fertility rates – the number of children each woman has - mean that population growth will be almost exclusively in developing countries.

Fertility rates are declining globally, down over the last 25 years from 4 to 3 children per woman. As this continues to drop, to a sustainable 2.1 children, world population is projected to stabilise over the next 50 years at somewhere around nine and a half billion people.

Declining fertility rates are linked with political stability and with improved education. The number of democracies has doubled over the last 25 years and access to education has resulted in 80% adult literacy, up from two thirds.

Environment change is difficult to discuss on a relatively short timescale of a few decades. The Earth has undergone many climate changes over millions of years and global warming estimates of perhaps just half a degree centigrade over the last century do not look dramatic. However, Kenya has recently experienced unusually heavy rain blamed by some on the warming of the Indian Ocean. Climate change cannot be ignored.

World energy production has grown by 42 percent since 1980. Pollution, mainly through burning fossil fuels, exceeds World Health Organisation recommended limits in many major cities.

The growing needs of the world's population have also contributed to several linked changes. Food consumption and the growing use of irrigation have put water supplied under pressure. Soil degradation through agriculture is reducing yields. Over-fishing has damaged fish stocks. Many factors have contributed to reducing the overall biodiversity of the planet through extinction of animal and plant species. Coral reefs and rainforests have suffered major depletions.

But before you begin to think that perhaps you might have come to the wrong seminar, I want to assure you that these factors are, and will continue to be, of direct relevance to accountants. However, before I move on to discuss that, I want to cover growth in communications and in trade and finance.

Transport, communications and technology

- Freight tonnage / vehicle ownership / air miles flown
- Access to television
- Telephone and internet access

The last two decades has seen a shift in global trade patterns with manufacturing increasingly carried on in developing countries. This was brought home to me personally on a visit to Hong Kong three years ago. On my first visit in 1980 Hong Kong had seemed to be filled with manufacturing plants, factories making tools, electrical goods and clothes. That manufacturing has now been relocated to the Chinese mainland leaving Hong Kong the province of head offices and service industries.

Increasing wealth in the developed world has allowed people buy goods from abroad, to own cars, and to travel as tourists. The World Tourism Organisation (WTO) noted the stagnation of tourism in 2001 because of the aftermath of the terrorist attacks of September 11 and the weakening economies of major tourism generating markets. However, WTO figures reveal that twenty years ago 290 million people took an international trip. This number had doubled by 1996 and the WTO estimate that by 2020 1.6 billion people will go abroad each year. Even adjusted for a near doubling of the world's population, that is a threefold increase in travel.

Information and entertainment are also crossing borders and increasing penetration into homes. For example, if you want to listen to radio station Kiss FM Nairobi, you can do so anywhere there is an Internet connection. There are, however, marked regional and national differences. More than half the world's citizens have never used a telephone. Only seven percent have access to a personal computer and only four percent have access to the Internet.

The changes in communication have given rise to completely different commercial models, with 'dot com' companies trading on line. Brand names are supported by global advertising and sponsorship. Information is available almost instantly and the technology is now place to allow cash to be transferred across borders in huge amounts. Computer technology has affected basic accounting for transactions, electronic commerce and financial reporting, with annual corporate reports increasingly published on the worldwide web.

Specifically, in the area of finance, I would highlight the following areas of growth:

Finance

- Proportion of national trade carried on by global companies (global brands)
- Cross-border currency flows and use of off-shore tax havens
- Derivatives and other complex financial instruments traded
- Share ownership by institutions rather than individuals

Global companies have been estimated to comprise 51 out of the top 100 economies. There are dangers in trying to compare corporate sales to a country's gross domestic product, but whatever the true numbers, corporate economies are now very significant. If properly encouraged by governments, global corporations can contribute significantly to national prosperity. It is however, a difficult balancing act. Enron and earlier scandals have pointed the finger at corporations as a potential source of influence on political decisions through lobbying and election contributions.

Turnover on the world's foreign exchange markets has grown significantly over the last two decades. By now you may be getting used to me quoting figures at you and so if I said that currency dealing had doubled you might not be very impressed. If I said it had gone up ten times you might begin to take notice. It has actually increased to fifty times its 1980 level.

The scale of cash movements around the globe is huge and there are, since the 11 September 2001 attack on the World Trade Centre, serious concerns over the existence of off-shore tax havens with banking secrecy.

Trading in derivatives, financial products like futures whose value depends on the movement in an underlying asset, has increased. Enron was trading in energy and even weather futures but I wouldn't like to speculate on the actual numbers! For once I don't have global figures going back two decades: there has been a 40 per cent increase in derivatives contracts in the last three years. The total estimated notional amount of outstanding over the counter (OTC) contracts at 31 December 2001 was \$111 trillion. This figure does not fit on the average pocket calculator. It is equal to over ten times the Gross Domestic Product of the United States.

Finally, I want to highlight a change in the way shares are owned in major markets. There has been a shift from private share ownership by rich individuals to collective ownership by pension schemes and investment management companies. For example, Kenya Airways has 40% institutional investors. Institutional investors are potentially very influential on companies but they have not always voted their shares.

So, the last twenty years has seen unprecedented change for humanity and the environment. Technology has given us the 'wired world' and trade and finance has taken every advantage.

Current professional developments

Against this background it is little wonder that the accountancy profession has not stood still. I must confess that the graph I used earlier was, in fact, of ACCA membership numbers! However, I now want to examine recent global changes in financial reporting, auditing (and other assurance services) and in corporate governance and professional ethics. There are equally important changes in the way the accountancy profession is regulated.

Although there are links to the wider changes; you may be relieved to know that I do not propose to go back twenty years to trace the origins of these current developments. When I was writing this presentation, I had to consider the planned content of other sessions in this Seminar and guess a little as to what their content would turn out to be. To some extent this session leads to more-detailed discussion later, however, I hope that there is not too much duplication or omission.

I want to highlight some particular events of importance to accountants. The first thing you will notice about the following list is just how recent most of these are:

1997/98 The Far Eastern banking crisis

1998 US Blue Ribbon Committee (improving audit committees)

2000 US Public Oversight Board Panel reports on Audit Effectiveness

2000 IASC modernised under Sir David Tweedy

2000 Ireland Review Group on Auditing

2000 GRI Guidelines issued

- 2001 UK Accountancy Foundation
- 2001 11 September terrorist attack
- 2001 IFAC and Forum of Firms reorganisation
- 2001 SEC revises independence rules – IFAC revises Independence section of Ethics Code – EU recommendation on auditor independence
- 2001 Enron collapse
- 2002 Andersen collapse (the Big 4)
- 2002 Ramsey Report in Australia
- 2002 King Report (2) on Corporate Governance for South Africa
- 2002 GRI revises Guidelines (and becomes permanent institution)
- 2002 IFAC Ethics Committee starts full redraft of Code of Ethics
- 2002 IAPC becomes IAASB
- 2002 Earth Summit in Johannesburg

I want to pull some threads out of this list and to do so I have to go back all the way to the end of the last millennium. The Far Eastern banking crisis was a watershed that set many different processes in motion. It began to emerge in May 1997. The Japanese, concerned about a falling yen, began to consider raising interest rates. This prompted a sell of, not only the yen, but other Southeast Asian currencies. Local stock markets also tumbled as investors sought to curtail losses. The effects slowly spread to the US where Wall Street was eventually affected.

For years before, banks and institutional investors had been borrowing at low rates in Japan and the US and lending short-term in Southeast Asia at higher rates. With currencies apparently stable, it looked a good strategy. Indeed Asian businesses were also borrowing dollars, banks in particular to re-lend against local real-estate. When confidence dropped everyone started to get out of local currency - including local corporations.

The physical effects of the crisis were recession with rising unemployment in many countries. A possible debt default by Korea, then the world's eleventh

largest economy, was seen by the IMF as a threat to the international monetary system itself.

Corporate governance

The IMF identified improvement in governance as one of the key factors in preventing a recurrence of the Asian crisis.

The need for corporate governance springs from the increasing importance of commercial corporations which, as mentioned earlier, can be as economically significant as countries.

Although the words 'corporate governance' had been used much earlier it was the 1992 UK Committee on the Financial Aspects of Corporate Governance (the Cadbury Committee) which was the first significant landmark. Corporate governance gained acceptance around the world as not only a 'Good Thing', but also something that reduced the cost of capital for companies that could demonstrate good corporate governance.

In South Africa there was the 1994 King Report on Corporate Governance. In the United States the 1998 Blue Ribband Committee laid down best practice for audit committees. Again in the UK, in 1999 the Turnbull Committee updated corporate governance guidance to ensure that directors had to be seen to be not only putting in place controls but also managing business risk. This ties in directly with changes to the audit methodologies of the largest firms which I will talk about later. It also confirmed the trend for companies to expand the brief of their internal audit department to take in non-financial risks and controls.

The most recent significant development in corporate governance is undoubtedly the second King Report on Corporate Governance for South Africa. Launched in March 2002 it is a lengthy and very interesting document. Unfortunately the Institute of Directors in Southern Africa wants everyone to pay \$100 a copy.

The report cites seven characteristics of good corporate governance:

- Discipline – senior management commitment
- Transparency – making information available
- Independence – avoiding conflicts of interest

- Accountability – including access of investors to question the board
- Responsibility – of management for their actions
- Fairness – balance including between majority and minority shareholders
- Social responsibility – ethical standards and response to social and environmental issues

The Report is an African response to the corporate governance challenge. It refers to spiritual collectiveness and humanity (*ubuntu*).

The Report provides a code of corporate practices and conduct for all South Africa listed companies. It confirms the emphasis on risk management and introduces a requirement for integrated sustainability reporting.

The challenge for the profession in Kenya is to ensure that corporate governance receives sufficient attention. This need not be disproportionate, given the relative size and importance of the Nairobi Stock Exchange, but Kenya needs to be seen as a country where corporate governance is 'good'.

Individually, accountants can champion good corporate governance at their clients or, if they are in industry, within their companies.

Sustainability reporting and assurance

Not only have there been environmental and human changes as I described earlier in this presentation, there has been a marked growth in the number of organisations scrutinising the response of business to these challenges. Many non-governmental agencies (NGOs) are alert to events indicating that a corporation is not behaving as a good global citizen. This has driven the growth of corporate sustainability reporting and assurance.

The cynical will say that, like corporate governance, this is a contemporary factor because investors will pay a premium for shares in companies that show a commitment to social and environmental matters. For example, Morley Fund Management has £105 billion of funds under management. It has an 'ethical investing team' which has recently ruled out investment in 45 of the top 100 UK companies because they do not meet its criteria.

While it is larger companies that are beginning to report on their success or otherwise in '*meeting the needs of the present without compromising the*

ability of future generations to meet their own needs', management of any business can adopt similar approaches and increase profitability. Reducing pollution may mean investing in new and better technology that improves a product or cuts the cost of waste.

The Global Reporting Initiative has issued reporting guidelines that are gaining acceptance. A revised version is currently on exposure. Accountants are also involved in providing assurance on these reports and the European Federation of Accountants has issued a discussion paper on the issues. I was heavily involved in drafting this document. It is important at this stage because the International Audit and Assurance Standards Board is about to restart work on a standard on what used to be assurance on environmental reports and will now hopefully be on assurance on sustainability reports.

The challenge for the profession in Kenya is to ensure that sustainability reporting and assurance receives sufficient attention. This need not be disproportionate but Kenya needs to be thought of as a country where the profession is active in sustainability matters.

On a personal level, perhaps you can accept the challenge to become an expert in this area. Respond to these consultations and help global developments understand and accommodate the Kenyan perspective.

By now you will have noticed that I am pointing out possible responses to challenges at two levels - for the profession as a whole and for individual accountants. I am sure you can develop your own action lists as this presentation continues.

Panel on Audit Effectiveness

Looking back to the list of events, the report of the US Public Oversight Board's Panel on Audit Effectiveness is one of the key drivers behind current changes in the global accountancy profession and standard setting. The final *Report and Recommendations* was issued in August 2000, following nearly two years of scrutiny of US auditing (including actual file reviews) and extensive public debate. It is interesting to reflect on the extent to which the main problems areas emerging from the Enron collapse were anticipated.

There are far too many recommendations in the Report to do other than mention a few today. The main areas for recommendation were:

- Conduct of audits, including the auditor's responsibility for the detection of fraud (including earnings management when it constitutes fraud)
- Leadership and practices of audit firms
- Effects on auditor independence of non-audit services provided to audit clients
- Governance of the auditing profession
- Strengthening the auditing profession internationally

Conduct of audits

The Panel concluded that auditors needed to undertake a 'forensic-type' fieldwork phase on all audits. This work would be based on the possibility of dishonesty and collusion, overriding of controls and falsification of documents. This would include substantive tests directed at the possibility of fraud. The recommendation also calls for auditors to examine non-standard entries (journals), and to assess, with the benefit of hindsight, how certain accounting estimates and judgments or other matters were resolved.

A full forensic phase would add enormous costs to the audit and US business has not wanted to pay for such increases. This has, however, driven the recent US exposure draft 'Consideration of Fraud in a Financial Statement Audit' which itself is likely to be adopted by IAASB. I am currently finalising ACCA's response to this exposure draft.

Leadership and practices of audit firms

The first set of recommendations under the heading of leadership and practices of audit firms concerned a term which has already demonstrated some staying power 'the tone at the top.' The Panel used the following stirring words which I can only assume were meant to be accompanied by martial music:

'Panel calls on audit firms to reaffirm, within their organizations and to the outside world, the importance of their audit practices and to stimulate their auditors to proudly hold high the banner of objectivity, independence, professional skepticism and accountability to the public by performing quality

audit work. These messages should be conveyed by all of the firms' top leaders, consistently and continuously.'

Similarly, the Panel called on the AICPA to actively and publicly promote the importance of audits.

This all seems odd for a review on audit effectiveness - but increasing confidence of users is one aim. The sting comes in the next recommendation.

Panel recommends that audit firms ensure that the performance of high-quality audits is recognized as the highest priority in their professional development activities, performance evaluations, and promotion, retention and compensation decisions. The Panel also calls on firms to place more emphasis on managing time pressures that might compromise audit quality.

This is directly relevant to Enron where some have pointed to the pressures on individual client-handling partners to give priority to keeping the client and selling other services rather than doing a quality audit.

Non-audit services

The Panel sat on the fence as to whether non-audit services prejudiced independence. It did, however, foresee, to quote, '*considerable public debate as the SEC pursues its rule-making initiatives to address the subject*'.

The SEC duly embarked on changes to its rules and the public debate raged over several months. The IFAC Ethics Committee issued a substantially revised Section 8 to the Code of Ethics dealing with Independence for Assurance Engagements and in Europe a 'Recommendation', a sort of light touch new legislation (that if not implemented by member states would be replaced by formal legislation), was developed. The latter took several months to finalise and latterly it had to be re-discussed and agreed because of the Enron collapse. It has very recently been issued in final form.

I am a technical adviser to Michael Foulds of ACCA who is on the IFAC Ethics Committee. I have been through the discussions and work that went into the new Section 8 and the period of its development, including two separate exposure drafts, which coincided with the SEC rule change was very interesting and exhausting.

At a meeting in March 2002 the Committee re-examined the Section and decided that it was robust enough to cope with Enron. The next challenge for the Committee is to rewrite the rest of the Code onto a similar principles-based

approach. The subgroup beginning that rewriting, is meeting in London on 31 May. Expect an exposure draft during 2003.

Governance of the auditing profession

The Panel recommended turning the Public Oversight Board over to the control of non-accountants, bringing many aspects of the US auditing profession under its control, and strengthening the peer review process, under which US firms reviewed each other for quality control purposes.

This move towards proper public oversight was being undertaken also in the UK, where the Accountancy Foundation was being created to oversee the profession. Similar developments were under discussion in various ways in Ireland, South Africa and Australia.

Strengthening the auditing profession internationally

The Panel acknowledged that there were efforts to strengthen self-regulation of the auditing profession in several jurisdictions. It then went on to make recommendations to the International Federation of Accountants relating to the global self-regulatory structure of the auditing profession and to audit firms that operate internationally. The latter are not just the Big 4 but also a further twenty or so 'transnational auditors'. Your Seminar programme includes a later session that is particularly relevant to this development. As a spur to standard setting the Panel recommended that such firms implement uniform audit methodologies worldwide, following international auditing standards as the base minimum.

The Panel's principal recommendation to the International Federation of Accountants was that the self-regulatory structure of the international auditing profession must include public oversight.

In fact, IFAC carried out a wholesale review that has changed the public representation on and composition of the IAPC, now known as the IAASB. 'Committee' became 'Board' and 'audit' became 'audit and assurance'; the former supposedly reflecting an increase in importance, the latter a wider standard setting role.

Changing standards

The Report of the Panel on Audit Effectiveness has been one of the key drivers behind current changes in standard setting. The globalisation of capital markets is another key driver of change. It makes sense for investors to be able to compare companies directly wherever they are listed. That means global financial reporting standards. It makes sense for the audit to have the same value everywhere in the world and that means global auditing standards and global ethical standards for auditors in key aspects such as independence.

There is no global currency in prospect although the Euro is improving transparency between European companies. There is, however, in prospect a technological solution to comparing financial statements and other information directly irrespective of the reporting currency. At the risk of 'getting caught in a footnote', I ought to explain that I am referring to the emergence of XBRL, which is the acronym by which the eXtensible Business Reporting Language. This is simply a way of coding up financial information, in the same way that HTML codes up text information for Internet browser programs to display. The coded material can be accessed over the Internet. Programs can search out and compare reports according to whatever criteria the user wants and can adjust everything into the currency of choice. Microsoft has reported in XBRL format and future versions of the Excel spreadsheet will include XBRL capabilities. XBRL can currently be used for US GAAP accounts. It makes most sense when the financial reporting standards become uniform, which is the future of global reporting. The related website (xbrl.org) is a mine of information.

Returning to standards more generally. The International Accounting Standards Board was formed out of the IASC. The transition from Committee to Board being a now familiar one. The transition has been accompanied by greater public involvement and better consultation mechanisms. The Board has also signalled a change to issuing 'financial reporting standards' not 'accounting standards'.

The issue very recently of its first batch of proposed changed standards was a quick fix designed to make some improvements in the light of the prospect of the EU adopting international standards by 2005 and to move towards approval from the International Organisation of Securities Commissions (IOSCO).

The real work for the future continues. The IASB is aiming to move to where the balance sheet reflects fair values and the profit and loss account is replaced by a comprehensive 'income statement'.

Auditing standards are also about to change significantly. The June 2002 IAASB meeting in Mexico is expected to approve documents on fair values, quality control and moderate assurance as well as a raft of changes designed to

bring into auditing standards the business risk approach to auditing used by the major firms.

The first challenge for the profession in Kenya is exactly the same as for everywhere else: to cope with the period of rapid change of international standards in accounting, auditing and ethics. The prospect that things will settle down after about a decade or so is of little consolation.

There is however, a second challenge. Many of the drivers of change relate to global capital markets and global firms of auditors. ACCA's written response to IFAC's proposals for the recent restructuring of IAASB included the comment that: *'The selection and composition of IAPC is a key area of debate and ACCA is not convinced that the proposals go far enough to promote the country balance which is necessary for an international committee.'* The challenge for the profession in Kenya is how to influence internationally in such circumstances. For example, as there are many smaller companies in Kenya, is there a need for the international bodies to develop simple reporting and auditing standards? As a bare minimum, responses to international exposure drafts as a body or individually should be considered. I know from my own working that IFAC welcomes all response.

Maintaining public confidence in the profession

There have been changes in the way the profession is overseen both globally and in several major jurisdictions. Mechanisms of public oversight, such as the Accountancy Foundation in the UK, are inevitably expensive for the profession. Developing economies have to consider carefully the extent to which there is a local need for such mechanisms.

The Enron collapse has arguably caused more damage to the public confidence in the accountancy profession than any oversight mechanism could ever repair. There has been considerable debate in the US Congress, and statements from governments, regulators, investors, corporations and accountants. All while the news of Enron and its auditors continues to feature almost daily in the media. ACCA has published its own comments, which draw attention to global issues arising and has given evidence before a UK Treasury Committee, investigating the implications for the UK.

Unfortunately, Enron will not be the last financial scandal. It may, however, signal the last stand for the rules-based accounting and other standards of the United States. International, principles-based standards will prove far more difficult for devious management to manipulate.

The other cataclysmic event of 2001 was, of course, the terrorist attack on the World Trade Centre and its aftermath as the war on terrorism was taken to

Afghanistan. Accountants not directly caught up with these events are seeing the US and other administrations trying to attack the mechanisms by which terrorist and other money-laundered funds are moved around the world. This, as I mentioned earlier, is also an attack on banking secrecy and the grey world of offshore companies.

Accountants have seen nothing wrong in advising clients to make use of offshore facilities or indeed making use of them personally. But there are dangers to the reputation of the profession. Recently in the UK there was front-page news about the fact that the richest man in the UK did not pay his fair share of tax, indeed due to some farming losses, he even received money from the government. His accountant advisers, although doing nothing illegal, were tarnished by association.

Conclusion

Early in this presentation, I mentioned the challenging birth of the Sony Walkman and its incredible success since then. I want to look at some of the reasons for that success. Sony's Morita wrote that 'I do not believe that any amount of market research could have told us that the Sony Walkman would be successful'. He just had confidence.

What else did he have?

The Walkman played music recorded on compact cassettes. The cassette had been developed by the Dutch company, Phillips but in 1965 there was a struggle between competing formats. Sony threatened to side with Grundig, a rival unless Phillips agreed to waive the royalties it wanted on each cassette. Eventually Phillips gave in and the compact cassette became the established standard. Success came through having a clear worldwide standard that met the needs of users.

Was there anything else?

Early on, Morita and his collaborators decided that their products would not be discount items, but would be high quality and premium-priced. Although it appeared to be 'new technology' the tape transport mechanism in the Walkman was identical to one that had been in production for a different tape recorder and had already sold thousands of units. The Walkman quickly gained a reputation for reliability and for quality.

Was there anything else?

On an early sales trip to the US Morita rejected what would have been a huge order from the Bulova Corporation because it wanted to sell only radios bearing the Bulova brand name. Instead Morita persevered and eventually returned home with extensive orders for radios that were sold under his company's name. The Walkman had the benefit of the Sony brand – well known and respected.

To successfully overcome its challenges, the accountancy profession has to have these attributes:

A strong brand recognised for quality and reliability.

Products that the market wants to buy supported by clear worldwide standards that meet the needs of users.

The contemporary pace of change shows no sign of lessening for the next two decades. Developing economies will be where population growth occurs and where there is the greatest potential for economic growth. But developing economies face greater dangers from environmental and social pressures.

The accountancy profession is uniquely qualified to provide the expertise and advice that business and government needs to increase prosperity. At the highest level we need to engage with government to create the right environment for businesses and people to thrive. Individually, we need to work to the best of our ability to ensure that public confidence in our profession is never in doubt. These are challenging times and we welcome that challenge.

RESOURCES

The following resources are mentioned in the presentation:

ACCA Discussion Paper 'New Directions in Accounting':

<http://www.accaglobal.com/pdfs/technical/23196>

Asian banking crisis – a press history:

<http://www.nytimes.com/library/financial/asiamarkets-index.html>

Asian banking crisis – an ACCA research paper 'Lessons Learned':

<http://www.accaglobal.com/pdfs/technical/23218>

Auditor independence, EC Recommendation of May 2002:

http://europa.eu.int/comm/internal_market/en/company/audit/index.htm

Australia, Ramsay Report – ACCA press release dealing with proposals for auditor reforms:

<http://www.accaglobal.com/news/releases/452541>

Corruption – Transparency International

<http://www.transparency.org> and

www.globalcorruptionreport.org

(see also story at <http://allafrica.com/stories/200205150014.html>)

Derivatives trading information:

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