

Global Audit Regulation - Shifting Capacities of Self-Governance

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SUMMARY

This chapter deals with self-governance at the global level in the field of audit regulation. It focuses on the nature and activities of the International Federation of Accountants (IFAC), an association of national professional bodies which both sets standards for, and represents, the international profession. This appears, on the surface at least, to be a very good example of self-governance at the global level: a profession which has managed to reconfigure what was self-regulation at a national level to self-governance in the brave new world of global regulation. An organization which has gained the respect and support of international regulators in the form of major international financial institutions (IFIs) and related institutions in the new international financial architecture which were established at the recent turn of the century to ensure global financial stability and an seamlessly efficient global economy.

Here the governance imagery is of highly qualified professional accountancy experts making standards for auditors in a transparent way in the global public interest, and also to some extent even governing the world-wide profession through the ‘membership obligations’ which prospective members of IFAC must agree to. IFAC being a small but crucial ‘cog’, operating alongside the International Accounting Standards Board (IASB) in ensuring that the smooth working of the international ‘financial reporting supply chain’ – from producers of financial reports to the investors/stakeholders who receive them.

However, delving into the details we find that it is more complex than this. As a result of a new and innovative ‘**regulative bargain**’ (Cooper *et al*, 1988; Cooper & Robson, 2006) made in 2003 (and further negotiated until early 2005) between international regulators and the international profession, IFAC has developed a structure where not only the international regulators, but also the Big 4 audit firms and representatives of the users of standards, all have formal roles within IFAC itself (see figure 1). This results in a kind of global corporatist governance which, through embedding all these parties within IFAC itself, embeds the politics of global regulation in this sector into IFAC. Legitimacy and authority to be achieved through the transparency and openness enabled through the affordances of the internet.

Has self-governance reached its limits here? In the neo-liberal economic understanding, auditors play a crucial role in the international financial architectures as the ‘guardians of truth in markets’ (Volcker, 2002). Is standard-setting for auditing, as a crucial back-room activity for a global market to exist at all, too important to be left to self-governance? At the institutional level, the answer to this seems to be ‘yes’ – as the new financial architecture structures in this area illustrate. However, at the level of the content of the standards, then it less certain that self-governance is something of the past. Important self-governance elements remain because of a wide understanding that there are technical elements in standard setting best dealt with by technically qualified professional experts. At the same time there is what can be called **professional indeterminacy** – in the sense that in standard-setting of the basic concept of ‘principles not rules’ enables an opening to be left for interpretations further down the line. Further the more specific concepts of ‘professional ethics’, ‘professional skepticism’ and ‘professional judgment’ – leave further space for self-governance in practice.

Introduction:

The world financial system has developed rapidly with globalization. Charlie McCreevy, European Commissioner for Internal Market and Financial Services (and an Irish Chartered Accountant by profession), remarked in a speech recently that:

"I started by noting that integrating markets and globalization, means that no rule is domestic anymore. The world financial system has become huge, global and complex. National regulators have big challenges ahead. To understand financial innovation, to assess properly the risks, to cooperate on global and unprecedented scope"(2007).

Cynics may say that power still lies locally as this is where the standards must be adopted and implemented, and where primary oversight is exercised. However, as Richard Fleck (2006), the Chairman of the British Auditing Practices Board writes in his "Chairman's Statement from the Review of Activities 2006" then "a baton has passed", in standard setting: (note that the 'Auditing Practices Board' referred to here is that of the UK)

"When the Auditing Practices Board was formed in 1991, wide acceptance of international accounting and auditing standards was a distant dream. At that time, when problems were identified, they were addressed on a national basis by the Accounting Standards Board, the APB and the Cadbury Committee and its successors. This work has served us well domestically and has enabled the UK to play a major role internationally in the development of standards for financial reporting, audit and governance internationally.

*Now, however, the **baton has clearly passed to international standard setters**. It is organizations such as the International Accounting Standards Board ("IASB") and the International Auditing and Assurance Standards Board ("IAASB") that develop and promulgate standards and it is the European Commission that determines their acceptability for Europe (and, therefore, the UK). Corporate reporting can be enhanced if preparers and auditors use the same high quality accounting and auditing standards. The APB, therefore, welcomes the EU's Statutory Audit Directive and the fact that it provides the platform for the adoption of International Standards on Auditing (ISAs) throughout Europe". (<http://www.frc.org.uk/apb/about/annual.cfm>)*

This chapter is concerned with analyzing a particular sector of the developing international financial architecture, which is the growing global governance of audit and auditors, and within this with a focus on the International Federation of Accountants (IFAC), and on both its standard-setting function and its growing governance of its member bodies. It is very plain to see in recent years that the regulation and governance of the audit profession has gone global – evidenced across a wide range of initiatives, most recently the 'roadmaps' for convergence between international and US standards in accounting and auditing. The particular focus here is on one particular organizations, the International Federation of Accountants, IFAC, a non-state, private organisation making "regulation beyond the state" (Held & McGrew, 2002), which represents an example of a form of authority that is becoming more common

with increasing globalisation.

IFAC has become particularly important in this arena, Neil Lerner, in 2005 the Global Head of Regulatory Issues at KPMG, and a member of IFAC's "International Ethics Standards Board for Accountants" (IESBA), wrote that:

"There are two bodies which have pretence to global regulation"... "There is Sarbanes-Oxley and the Public Company Accounting Board, (PCAOB)¹, and the International Federation of Accountants, (IFAC) although we should not underestimate the importance of the new Eighth Directive in harmonising regulation in Europe" (Lerner, 2005).

This is an interesting quote, as his use of the word 'pretence' indicates a certain distancing from the possibility of achieving this end of global regulation; besides IFAC he mentions the US regulator, and a piece of EU regulation – which rightly illustrates the multilevel nature of governance in this arena.

The nature and development of self-governance in this area is closely connected with the relationship between IFAC, representing private authority, and international regulators, representing public authority, which we will discuss in the next section.

Private Authority and Public Authority in the Auditing Arena

What is particularly notable in the auditing area is that the 'private authority' is so closely associated with the international accountancy profession. A powerful, globalized profession represented by IFAC as an organisation, and in professional practice by the 'Big 4' audit firms. There are several different angles which could be taken in examining this, but here in this chapter we focus on examining the rise of IFAC as the global association for the accountancy profession playing an important role not just as 'private authority' but more accurately as 'professional authority' in its relationship with 'public authority' through the rapid development of the international financial architecture during the last decade. It has been common for the term 'private authority' to be used in the global governance literature to describe non-state standard setters and regulators, however, we have chosen to use the term 'professional authority' here to describe the non-state based authority which IFAC exercises. This brings to the discussion an understanding that IFAC has this particular status of 'profession' that brings with it a baggage of traditional expectations and duties historically linked to this term. In this way we can distinguish IFAC from an organisation like the IASB, which has no formal links with the international profession, and would be better described as 'private authority' (for a discussion of private and public authority see Porter, 2005).

Public authority in this arena is a complex matter, for there are a series of organisations involved, most importantly these are the members of IFAC's 'monitoring group', referred to by IFAC as the "international regulators", these are International Organisation of Securities Commissions (IOSCO)

¹ This is the US answer to the financial scandals; the PCAOB is independent of, but supervised by the US Securities and Exchange Commission (SEC). Prior to 2002 (when the Sarbanes-Oxley act was passed) audit standard setting was carried out by the American Institute of Certified Public Accountants (AICPA).

which plays a central role), the Basle Committee for Banking Supervision (BCBS), the International Association of Insurance Supervisors (IAIS), the World Bank and the European Commission.

IOSCO is an important organisation in this constellation, it has:

“[R]epresentation from more than 100 countries, with member regulators overseeing more than 90% of the world’s securities markets. National regulatory agencies are full members of IOSCO. Other eligible bodies with appropriate responsibility for securities regulation may become associate members. Self-regulatory organizations or international bodies with appropriate interest in securities regulation are eligible for affiliate membership” (Diplock, 2006).

The organisation itself has been, and is, heavily influenced by the US Securities Exchange Commission (SEC) – indeed it seems that the rise of IOSCO since its formation in 1983 as a potential securities regulator, is linked to needs which the US (and allies) saw for international regulation in this area. During the last decade its power has been diluted somewhat as other exchanges have grown in importance, today it describes itself as the “global standard setter for securities markets” (Diplock, 2006) In this paper, and following writers such as Slaughter (2004) we will view this as public authority, although, it has affiliates which are not governmental in nature.

The particular theme which is developed in this chapter is that the developing global governance in this area can be usefully analysed through seeing this relationship as one between a partial 'world state' and a partial 'global profession'; a relationship which we argue can be conceived of as a reconfiguration of the state/profession role which has earlier been identified as existing in nation states, and in particular what David Cooper and colleagues (Cooper & Robson, 2006) have described as the 'regulative bargain'. This is not something expressed in terms of a formal contract, but rather a subtly unspoken but complex mutual understanding of roles². At the national level what we can refer to as a 'regulative bargain' has taken various different forms, but clearly involves the 'state' relying on the profession to act in a regulatory function with regards to financial reporting in turn for giving the profession some special privileges.

Audit benefits the State by ensuring the reliability of economic data used by the State both for managing the economy and often also for taxation purposes. The privileges the profession gets are a form of a monopoly over certain forms of work, in particular audit (using Abbott’s terms (1988), this would be referred to as an important 'jurisdiction'). Another part of this 'bargain' given to the profession, in particular in Anglo-Saxon countries has been connected to the extent of the right of the profession to regulate itself. This regulation concerning both the setting of standards, the monitoring of members for adherence to these standards and the disciplining of members who fail to live up to them. In their heyday, the British professional associations basically had all these powers, within the boundaries of legal provisions. This self-regulation began to decline during the 1980s and 1990s, becoming what the EU called “monitored self-regulation” (ref.) - the monitoring part coming from state institutions.

² Earlier this might have been described as a simple 'gentleman's agreement', but which developed as the years went by and the demands which each party made to each other became greater as the State’s relationships with business and the profession became more complex. .

So far in this section we have written of the international profession and international regulators. To this analysis should be the two other important elements which Lerner (2005, see above) referred to, first at the regional level is the EU, a powerful public authority in its own right. Although its status as an actor in respect of interacting with the 'non-EU' is somewhat ambiguous (for a discussion of this see Rosamond, 2005) in the case of accounting and auditing the European Commission has played quite a clear role as public authority justified through amongst others, the Financial Services Action Plan³. The second important element is the US, which is a hugely important player at the global level through its national public authorities, the SEC and PCAOB. However, in this chapter we will focus on the two elements international profession and international regulators, for further discussion of these other two elements see Loft et al (2006), Humphrey et al (2006) and Loft & Humphrey (2006).

In investigating these questions, we have used documents from a wide variety of sources, observation of meetings open to the public, and conversations with participants. One of the results, we argue, of the regulative bargain negotiated between 'global state' and 'global profession' in the reform of IFAC which resulted in a new structure in 2003 (see figure 1) is that IFAC has become increasingly transparent, with meetings in the standard setting committees and their consultative advisory groups CAGs) open to public observers, and the material for the meetings is freely available. This has given an unprecedented possibility for researchers to get an insight into the developing world of global governance in the finance sector, although a limited 'window' which has to be regarded as a partial view. Whilst this 'private' professional authority is in many key respects, transparent, international regulators are less so, and in particular IOSCO do not open their meetings to public observers, have only selected documents on their website. So in a way IOSCO, which is regarded as 'public' seems in practice to be more 'private' in the sense that it is scarcely transparent, IFAC which is 'private', through its increasing transparency becomes more 'public' in some sense. It thus does seem that these developments cast some questions about the notions of 'public' and 'private' as transferred from a national setting to a global one.

This paper will continue by dealing with the development of IFAC and its relationship to international regulators in three time periods, the first up to 1998 and the Asia crisis, the second deals with the effects of the response by international regulators to the Asia crisis, and the third to the aftermath of the Enron debacle. The overall aim being to bringing out the development of the special nature of this 'global state'/'global profession' (or rather, 'international regulators'/worldwide profession) relationship. A process which raises issues about the capacity of self-governance, in this particular case of professional authority earlier expressed as 'self-regulation' in this global setting

The Development of IFAC and its Relationship to International Regulators: Prior to 1998

Despite the important role that the auditors of global multinational corporations appear to have in

³ Also at the regional level the organised profession has its own organisations, the quietly influential Federation of European Accountants (FEE), and the big 4 + 2 audit firm body (the Big 4 + Grant Thornton and BDO) the European Contact Group (ECG).

ensuring ‘truth in markets’, auditing has not become a function of any international governmental organisation. There is no “World Financial Authority” as was imagined possible (but did not materialise) in the wake of the financial crisis in Asia in the latter part of the 1990s. Instead, the IASB and IFAC, together with US regulators of accounting and auditing, have assumed positions whereby they are able to create or significantly shape global governance in the financial reporting area. In *Table 1* we present an ‘executive summary’ of IFAC's nature and role as an international organisation (see also Loft et al, 2006).

IFAC was founded in 1977 with headquarters in New York; its purpose was defined as advancing “the development and enhancement of a coordinated worldwide accounting profession with harmonized standards” (IFAC’s original constitution, reproduced in Brennan, 1979). It was organized as an association of national professional bodies⁴ of accountants, who were its ‘members’ (individuals were not permitted to join), a Council of 15 persons elected by the Assembly that consisted of one representative from each member body (ibid.). The Council had the power to decide whether or not to admit a professional accountancy body to IFAC. From early in its organisational life IFAC produced international auditing guidelines (through its "International Auditing Practices Committee, IAPC), as well as ethical and educational guidelines. However their influence was fairly limited, although they certainly provided inspiration to developing and emerging economies where there were no existing standards. The most important of the guidelines which they produced were clearly the international auditing guidelines, particularly since, in the mid-1980s the UEC, the European professional association for accountants, gave up their production of standards recognising that it would be appropriate to concentrate their efforts on contributing to the international standards.

In 1983, under the influence of the US SEC, as we have noted earlier, IOSCO was formed. In the late 1980s they (together with their Canadian counterparts) began to take a particular interest in the possibilities of the use of international accounting standards and international auditing guidelines for the use in cross-border listings. Discussions with the IASC, and also the IAPC (see SecHistorical.org (ref.)) were initiated. In the early 1990s the International Organisation of Securities Commissions (IOSCO) actually gave the guidelines its approval for use for the audits of companies with cross-border listings, however in 1991 the auditing guidelines were re-christened as standards rather than guidelines, and codified but IOSCO but effectively then withdrew their approval in 1994 as the consolidated, codified International Standards on Auditing (ISA) were felt not to live up to their exacting standards⁵.

Many organisations make standards, but they have little effect in the world without being adopted and put into practice, and until the last decade IFAC’s standards, including those concerning auditing seem to have had a somewhat limited effect. To give an example, in Denmark IFAC’s auditing standards were published in book-form by the Institute of State Authorized Public Accountants (*Foreningen af Statsautoriserede Revisorer* - FSR) in 1994. However, the standards, were not translated into Danish, rather they were published in English with a foreword in Danish. The foreword emphasized that they did not represent good auditing practice in Denmark, but might be considered for inspiration if they

⁴ Initially there were 63 professional bodies from 49 countries, as in many countries there is more than one professional body for accountants (Goerdeler, 1979)

⁵ During this same period (1993/4) IOSCO also refused to give their (expected) approval to of International Accounting Standards (IAS) for use for companies with cross-border listings (see Camfferman & Zeff, 2007).

were relevant in an area where there were no Danish standards (FSR, 1994). In 1997 the then President, Juan R. Herrera reviewing the first twenty years of IFAC's existence, bemoaned the situation:

“The world needs a harmonized accounting profession, and we are still to deliver. We do have quite a comprehensive set of international professional standards in place, but too many countries, members of our organizations, are still to adopt them. Ours is, perhaps, the most international of professions. But do we see ourselves as such, or only as a collection of provincially minded individuals?” However, he also commented that spoke of how IFAC's track record was quite remarkable: *“[n]ot only are IFAC and IASC universally recognized as the bond that ties together all aspects of our profession around the world, but we are credited as the international standard setters for the accounting profession”.* (Herrera, 1997).

Thus the picture that we get is that IFAC had made great progress, however, the use of the standards needed to be extended. National professional bodies often had their own standards for auditing, and in the case of developed countries like the UK and USA were not interested in harmonising ‘down’ (as they saw it) to the international standards, which were less developed than their own.

However, as in accounting earlier, it was the EU that took moves that pushed the ISAs towards the limelight. In the mid-1990s the European Commission began to take an interest in ISAs as forming a possible framework for auditing to be used in the EU⁶, this interest being confirmed in at the European Conference on the Green Paper held in Brussels in December (EC: 1996). The WTO, in its Singapore Declaration of December 1996 acknowledged IFAC as the “setters of international standards for the accounting profession”. Thus it seems that at this stage IFAC's auditing standards began to be seen as a tool amongst others (in particular in association with the use of international accounting standards (IAS), could be used for the purposes of international financial regulation.

It is clear from looking at SEC speeches and documents from the 1990s that at this stage that concern about the international financial architecture began to grow as a result of various scandals and the rapidly increasing volume of financial transactions taking place across borders, but that was about as far as it went.

Speaking at the World Congress in Paris in 1997, which marked the twentieth anniversary of IFAC, the President of IFAC, Juan Herrera, He went on to name the recognition by the WTO as: “the most important milestone in our first twenty years” (Herrera, 1997).

The Asia Crisis of 1997 and its consequences (to 2001)

This development of IFAC as an authoritative standard setter was accelerated by the Asian Crisis of 1997, where it became clear, after the event that the financial reporting and auditing of companies in this region had not always been of a high enough standard. Even in cases where a Big 5 member firm in Asia had done the audit, there could still be problems (Rahman, 1998). One of the answers appeared to be a move towards international harmonisation of accounting and auditing. In 1997 a World

⁶ This interest was closely connected with that which the EU had in the possible use of International Accounting Standards (IAS) as EU standards.

Congress of Accountants was held in Paris with the theme of “how accountants best serve the public interest”. The President of the World Bank, James Wolfensohn addressed the Congress, remarking that accountants had to play their part, asking the delegates to: “[p]ush the agenda for international harmonization of accounting standards to meet the needs of the global marketplace. In a world that is growing more and more like a single economic household, it makes no sense to be speaking in different voices. We urgently need a unified global language of business” (Wolfensohn, 1997). He went on to speak of the need for accountants to be involved in helping to limit corruption, and of their role in helping developing economies. He was particularly critical of the absence of civic responsibility on the part of the international accounting profession⁷.

It is in this period that it seems that the idea of a more structured coordinated global 'financial reporting infrastructure' began to move beyond the drawing Board. In financial reporting the idea of the importance of the 'financial reporting infrastructure' began to develop, one of the documents where this appeared was the IAS Concept Release⁸ in 2000 (SEC File No. S7-04-00). This contained the following statement:

"Accordingly, while the accounting standards used must be high quality, they also must be supported by an infrastructure that ensures that the standards are rigorously interpreted and applied, and that issues and problematic practices are identified and resolved in a timely fashion. Elements of this infrastructure include:

- *effective, independent and high quality accounting and auditing standard setters;*
- *high quality auditing standards;*
- *audit firms with effective quality controls worldwide;*
- *profession-wide quality assurance; and*
- *active regulatory oversight.*

In this release, we discuss a number of issues related to the infrastructure for high quality financial reporting...."

What is important about this release (and it was important, despite the fact that it was 'only' a concept release) is that it contained a vision of a financial reporting infrastructure which included standard setters, standards, audit firms, the profession and regulators. It defined an arena and a potential programme for development which in some sense **presumed** that a global governance of international

⁷ Under the Presidency of James Wolfensohn the World Bank continued to emphasize the significance of accounting and auditing in preventing corruption and as generally important tools in development. This project was enhanced by the presence of Jules Muis (formerly senior partner of Ernst & Young), Vice President and Controller of the World Bank from 1994-2000, who is reported to have employed 125 accountants in his first year at the World Bank <http://www.accountancyage.com/actions/trackback/2026391>.

⁸ An SEC Concept Release is described by them in the following terms “The Commission occasionally publishes "concept" releases to solicit the public's views on securities issues so that we can better evaluate the need for future rulemaking”. <http://www.sec.gov/rules/concept.shtml>

financial reporting could emerge from a working together of these elements. It was a vision which did not only include regulators, but also the big audit firms (who had been criticised for their role in the Asia crisis, in particular the failings of audits done by firms within their networks in Asia).

It was also clear in the US that they could not solve the problems and apparent weaknesses in the global economy by themselves. In the wake of the Asian Crisis the G7 countries discussed extensively what should be done. While they rejected the idea of setting up a set up 'World Financial Authority' (which could perhaps have been like an SEC for the world placed under the jurisdiction of the UN) they established a series of less formal mechanisms to try to prevent a recurrence of such a financial crisis. One of the most important of these was the Financial Stability Forum (FSF), set up in 1999, which brought together important financial regulators.

In 2000, FSF listed IFAC's auditing standards as one of the 12 key standards for financial stability (Financial Stability Forum, 2006). This was an important development, it set public authority behind these private professional standards (it is notable that on the list of key standards it is noted that the IAS/IFRS and ISA are produced by private organisations, unlike the other standards that were produced by bodies with public authority i.e. bodies backed by some kind of trans-governmental authority). Around the same time the IMF and the World Bank gave their implicit blessing to IAS/IFRS and ISA by making them benchmark standards in their ROSC (Reports on Standards and Codes) initiative in accounting and auditing, which was directed at emerging and developing countries (see http://www.worldbank.org/ifa/rosc_aa.html). The remit of ROSC analyses was to: "analyze comparability of national accounting and auditing standards with international standards, determine the degree with which applicable accounting and auditing standards are complied, and assess strengths and weaknesses of the institutional framework in supporting high-quality financial reporting" AND to "Assist the country in developing and implementing a country action plan for improving institutional capacity with a view to strengthening the country's corporate financial reporting regime" (ibid.).

At the same time, and particularly in connection with the financial services action plan (FSAP) the European Commission began to move towards the adoption of ISAs for all statutory audits in Europe and IOSCO further discussed their potential approval. The IAPC itself was reformed under a new name, the International Auditing and Assurance Standards Board (IAASB). Thus by 2001 IFAC's auditing standards, despite their 'private' status, were on their way to be accepted by the major international regulators (IOSCO did not approve ISA's but continued communication with the IAPC/IAASB on them). In other words IFAC was beginning to succeed in obtaining an important place in the networks of what has been called the "new international financial architecture" (Thirkell-White, 2004; Germain, 2004) or an emergent world economic society (see Slaughter, 2004). However, at this stage the international regulators were not directly involved with formal positions in IFAC, although they sat in IAPC's CAG (Consultative Advisory Board). Thus IFAC can be described as a self-governing body for the international accountancy profession at this stage, however this 'self-governance' was severely limited in practice, as IFAC was still seen as **representing** the global profession, and whilst it set standards and had membership obligations, then professional associations in developing countries tended to see them as useful models, whilst professional associations in developed countries saw them as standards which were generally inferior to their own, or not fitting their particular circumstances.

The events in the wake of the Asia crisis had brought the rapid development of what was referred to as the new ‘international financial architecture’. This financial architecture was directed at preventing future crises, and in its various manifestations was directed at preventing financial instability and at ensuring ‘truth in markets’ to use Volcker’s phrase (2002). Harmonised financial reporting standards and auditing standards were seen as an important part of this, as they could enable a ‘level playing field’ for investors, who would not be left wondering if they could rely on accounts audited using, for example ‘generally accepted auditing standards in Thailand’.

Before we got further, it is necessary to examine the developments concerning the Big 5 audit firms. Following the Asian crisis of 1997, and partially in response to the criticism that they received over their role in this crisis, the, then, Big 5 firms felt that they needed a “coordinating body to lead the effort and interact with outside partners” and duly set up a joint “Global Steering Committee” (GSC) in 1999 (Morris, 2001: 14). Apparently whilst the Big 5 had difficulty being in the same room together to start with, at the World Economic Forum in Davos in January 2000 they managed to resolve their problems and agreed to work together in various ways and to support IFAC (Turley, 2001) – with one of the three main elements in their programme being to strengthen IFAC as the global audit standard setter and self-regulatory body for the international profession (Morris, 2001: 14). That the big firms began to work together in this way was important, we will return to this later.

Also initiated by the Asia Crisis, in 1999, an International Forum on Accountancy Development (IFAD)⁹ was formed as a joint venture between IFAC, the IASC (now IASB), the biggest 7 audit firms¹⁰ and the ‘international regulators’ - in this case the World Bank, IOSCO, BCBS, OECD and the IMF were included. The initial aim was to enhance the accounting capacity and capabilities in developing and emerging economies (Street & Needles, 2002: 255). However, after the first meeting the aim got broadened to be that all the parties should work together to fulfil a common mission of improving financial reporting, accountability and transparency worldwide. There were problems because of “a disagreement between the accounting profession representatives and some of the international institutions regarding the purpose of IFAD” apparently the “various participants launched hand grenades at each other” yet the “meeting ended on a very friendly basis” (Street & Needles, 2002: 256). It appears that the disagreement was due to the international regulators expected more of the ‘international profession’ (here read: Big audit firms) than they wished to give. The organisation has been moribund since 2001, and will not be revived.

In this regulatory arena (financial reporting in the international financial architecture), the setting up of IFAD and the holding of these meetings was an important event in that it brought the international regulators together with IFAC as the representative of the international profession and the big audit firms. In the context of this paper, it is notable that IFAD brought together the international regulators and the international profession (both in the form of IFAC and the big firms) to discuss what are effectively issues concerning global governance in the financial reporting arena.

In November (2000) IFAC’s Board approved a new strategy “designed to strengthen IFAC’s role as the

⁹ It appears that the first idea for this organisation came out of the meetings of IAPC’s CAG.

¹⁰ The then Big 5 + the 2 largest of the medium sized firms Grant Thornton and BDO (there are considerably smaller than the Big 5, now 4).

global standard-setting, self-regulatory and representative body of the international profession.... It also outlined a broader role for the organisation in encouraging high quality of accounting and auditing services and promoting the creation of a global financial architecture” (IFAC, 2001: 1).

Within IFAC itself, one of the results of the cooperation between the Big 5 + 2 was that a ‘Forum of Firms’ (FoF) was established in 2001, which would be open to all audit firms that “conduct business in two or more international jurisdictions” (Tie, 2000). Member firms were to be “required to establish, and train their staffs to observe, internal policies and practices that comply with international accounting standards (IASs), international standards on auditing (ISAs) and the IFAC code of ethics”. Firms that gained admission to the group (and by October 2001 they numbered 25 (IFAC, 2001:1) “must submit to quality control and monitoring and ensure that all their offices – domestic and international – consistently use adequate standards” (Tie, 2000). This move to establish a ‘global peer review process’ represents a direct self-governance of the international profession, by the international profession. With both IFAC and the big audit firms being involved this represented a ‘new vision’ of IFAC’s role and potential (IFAC, 2001). At the same time a public oversight board (POB) was proposed, and nominations requested. These initiatives were clearly modelled on the operation of peer review and public oversight by the US profession, and in fact, a major report (O’Malley, 1999) had suggested that IFAC should take these steps (check). Thus at this time self-governance was developing along the lines practiced by the US profession.

In 2001 IFAC made a major review of IAPC membership and processes, following this it was decided to change the name from International Audit Practices Committee to the current International Auditing and Assurance Standards Board (IAASB). The membership was to include five representatives from international audit firms, proposed by the Transnational Auditors Committee (TAC) of the Forum of Firms; ten from IFAC member bodies, with a majority of those from countries with strong national standard setters; and three public interest members (IAASB, 2007). IAASB operations were to receive adequate resources to sustain its activities and follow due process and transparency in carrying out such activities. Again, this was important in bringing the big firms and IFAC into alignment, and we can now think of IFAC (professional associations the world over) and the big audit firms (now acting in concert to deal with certain regulatory issues), and ‘embedded’ in IFAC, as forming a new and potentially stronger ‘international profession’.

The Development of IFAC and its relationship to international regulators: following the 'crisis of confidence' in the profession in 2002

In the wake of the collapse, in 2002, of Andersen, one of the then big 5 audit firms, the international accounting profession was thrown into a crisis. Following this, and meeting in 2003 a ‘monitoring group’ of international regulators was formed to discuss with IFAC how to proceed. This included representatives from the European Commission, World Bank, IOSCO, BCBS and IAIS. The negotiations which followed between the big audit firms, IFAC and the monitoring group on what should be done were led on IFAC's side by the then President (2002-2004), Rene Ricol. He is credited with being the driving force that kept IFAC together - there being some parties who wanted to 'extract' the IAASB as a separate standard setting body with an independent status like that of the IASB. These events are discussed in more detail in Humphrey et al (2006) and Loft et al (2006).

Part of what we will call the 'regulative bargain' (see below) between the international firms and IFAC on the one side, and the Monitoring Group on the other involved the installation **inside** IFAC of a Public Interest Oversight Board (PIOB). It took until 2005 to finalise the membership of the PIOB – which comprises a number of senior regulators, some retired, some still active as regulators, and the now established PIOB now has its own office in Madrid in the same building as IOSCO. The new structure of IFAC has rightly been described by the first chairman of the PIOB as “a novelty for world-level public oversight” (Thomadakis, 2005), in an earlier paper we have described this as a system of “embedded oversight” (see Loft et al, 2006). What it does is that it embeds in IFAC (in its role as standard setter) an oversight mechanism focused on the procedures of standard setting and selection of committee members - with the aim of ensuring that activities are in the global public interest. In an historical view, this is a rather interesting situation as in a way it suggestive of corporatism, but in accounting, traditionally corporatism has been the other way round - where the profession's representatives have been embedded in government committees rather than this which is the global 'state' in a sense, embedding itself in the global profession.

There is another interesting issue that arises here, for the Big 4 audit firms have come to play a very important role in IFAC, as they have provided an increasing amount of funding to the organisation. They are represented through the Transnational Auditors Committee (TAC) and TAC has the right to appoint a certain number of members to standard setting committees. The now named "Global Public Policy Committee" represented to start with just the big 4, but since 2006 is the Big 4 +2 (the additional firms being Grant Thornton and BDO). Unlike IFAC, which represents the worldwide profession in a very visible and transparent way, this committee is not surprisingly more secretive and has no public website for example. In fact the little that is publicly available (and emerges through googling) comes precisely from Grant Thornton and BDO. The only description of what it is that the GPPC does is found on the Grant Thornton website, where the "Regulatory Working Group" of the GPPC is described as aiming to:

"...build trust in the public company audit. Fundamentally, its aim is to serve the public interest by helping to restore confidence by strengthening both public confidence in the accounting profession and the quality of financial reporting. It does this by building common positions among the largest accounting networks in relation to regulatory and legislative initiatives, and by educating the public and regulators about the accounting profession and the likely impact that particular regulatory or legislative initiatives will have on investor protection and the profession. The regulatory working group acts as a catalyst for country-level action to seize opportunities and address challenges arising from regulatory and legislative initiatives and it provides support to countries faced with regulatory or legislative changes.

In order to support current oversight structures, the role requires a constructive dialogue on audit quality and regulatory concerns with the Monitoring Group of Regulators, and the maintenance of relationships with key international standards setters."

(<http://www.gti.org/services/assurance/standards.asp> as at June 2007).

In recent years the GPPC has organised a Global Public Policy Symposium, from the details that have

emerged it is clear that these symposia brought together the international profession, international regulators and the international standard setters. The 2005 symposium (like the others) was not a public event, however it is clear that many of the most important persons in the regulatory field of accounting and auditing were present, including not only the leaders of the Big 4, but also the EU Commissioner Charlie McCreevy, the chair of IFAC's PIOB, the Chair of IOSCO's technical committee and senior American regulators.

At a global network firms' conference in London in February 2006, Graham Ward, the then current President of IFAC, noted that the relationship between IFAC and the firms was close:

“The firms are part of our Regulatory Liaison Group, as I have mentioned; we meet regularly with the firms; the Transnational Auditors Committee and the Forum of Firms provide a formal relationship with international accounting firms; the firms are represented on IFAC's Planning and Finance Committee; nominees of the Transnational Auditors Committee serve on IFAC standard-setting bodies, providing immensely valuable practical expertise; in addition, many of the individual members of our member bodies are partners in, or employed by, the firms which, facilitate their participation in IFAC's standard setting and other activities” (Ward, 2006: 11).

Looking at the importance of the large firms, then as already mentioned earlier, what we call the 'international profession' appears in some sense to be being constituted through two overlapping transnational network organisations: first, the traditional IFAC structure wherein it serves as a 'meta-organisation' of, and for, national professional associations and secondly, the large audit firms, which give more explicit consideration to the interests of the largest firms in the profession.

The new organisational and governance arrangements at IFAC are such that the auditing profession has managed to continue to make its own international auditing standards under a system of public oversight - with the larger firms particularly funding the cost of such systems changes through direct monetary contributions to IFAC and, indirectly, through the payment of airfares, hotels and lost time of members of their firms participating in meetings of the Forum of Firms and the TAC. The familiar, traditional, nation state/profession relationship in accountancy, where the state and the profession enter into a kind of 'regulative bargain' (Cooper et al, 1988, Robson et al, 1994; Cooper & Robson, 2006) has seemingly been duly reconfigured at the global level, through the governance responsibilities of a group of international regulators acting for the 'public interest'.

Thus IFAC's authority in global financial governance is justified through the legitimacy it gets from the presence of the PIOB, which in turn adds legitimacy to information in markets. As Graham Ward, President of IFAC puts it, the PIOB: "... works to ensure that there is sufficient public interest input into IFAC standard-setting processes. Public oversight of these processes is crucial as it assists in building credibility and confidence in international standards and auditing, which then contributes to confidence in the financial information produced by companies; in the examinations carried out by their auditors; and ultimately, in the capital markets that rely on such information" (2006: 9-10).

What is interesting here is to note that the auditing (and ethics) standards being mandated are increasingly (outside the US) IFAC's ISAs. The new EU Eighth Directive (2006), which is now being implemented, mandates their usage (although, like with IFRS, this may contain a clause that it is those

standards accepted in the EU which are used). Thus it seems that a ‘regulative bargain’¹¹ is being made at a global level where ‘international regulators’ (here IOSCO, World Bank, EU, BCBS, IAIS) lend support to IFAC’s standards as produced within (but increasingly to some extent independent of) IFAC. As the standard setter making the standards that national states/professions are becoming obliged to use through the requirements set by ‘international regulators’, then IFAC enters into a kind of ‘regulative bargain’ with the international regulators.

Thus at the cold global heights ‘above’ nations it seems that IFAC as the meta-organisation for the profession is coming to act as de facto, as a ‘worldwide professional association’ rather than as a ‘simple’ meta association ‘representing’ its members. In its own documents it is increasingly referring to itself in ways that indicate that authority. For example, in the latest annual report (2006) it refers to itself in terms of “Architect of the Global Profession” and “embracing all professionals”. The 2007-2010 Strategic Plan refers to the “worldwide accountancy profession” as including all professional accountants who are members of professional institutes (IFAC member bodies)... (IFAC 2006 Annual Report). Whilst the term ‘worldwide’ profession had been used earlier (way back when IFAC was formed), then what the use of the word ‘all’ is a subtle addition.

Most notably, the Chair of the PIOB, Stavros Thomadakis, writes: “the federation of regulators, have chosen to cooperate with the world accounting profession, represented by IFAC...” (PIOB Annual Report, 2005); which confirms this relationship. Also writing: “Attracting the profession into a world cooperative venture is a visionary strategy...” (PIOB annual report).

From Making Standards to Implementation and Compliance

As a nascent global regulator of auditing and auditors, IFAC produces standards. However as a private standard setter operating at the global level, its standards are only empty rhetoric without recognition, implementation and enforcement by bodies (national, regional or global) with regulatory powers. What is interesting here in the context of this examination of the rise of global governance of audit is the **place and role of IFAC** in implementation and compliance, and to what extent this represents another, rather different form of self-governance than that which comes from standards and (rather more like a reconfiguration of the kind of authority that IFAC’s own member association exercise over their individual members).

As noted earlier, IFAC has obtained more and more recognition of its standards, in particular the ISAs, by transgovernmental bodies. This includes the EU, the World Bank, the Financial Stability Forum (FSF) and IOSCO (although they have not fully endorsed them yet). However none of these organisations has been involved in systematically implementing IFAC’s standards as global standards. The nearest to international governmental approval has come from the EU, with its Eighth Directive (2006) bringing in the use of International Standards on Auditing (ISAs) for all statutory audits conducted in the EU¹².

¹¹ We see this ‘bargain’ as being implicit rather than explicit; relating to the mutual expectations of professions and states to each other – they both embrace (at least in theory) the ‘guardian syndrome’ as described by Wyatt & Gaa (2004) – where the public interest is paramount and commercial interests out of the picture.

¹² The precise mechanisms through which the standards will be implemented and enforced are still being discussed, but

Implementation is one thing, enforcement another. This seems to be developing, albeit in a rather patchy way, not only through governmental initiatives and international governmental organisations, **but also through IFAC itself**, which is becoming involved in moving ‘membership obligations’ of professional associations from being theoretical matters to central aspects of membership.

In terms of compliance, the most distinctive feature is the new structures which challenge self-governance (an example of the limits of self-governance). These involve **independent** audit oversight at the national level (the old style peer-review by the profession of the profession being rejected as not independent and too ‘cosy’).

As a result of the Sarbanes Oxley Act the US PCAOB was formed. One of their roles is to ‘inspect’ the auditors of US listed companies – (also extraterritorially, which has caused a lot of problems. IOSCO has encouraged the setting up of auditor oversight bodies (IOSCO, 2002d). The British POBA is engaged in active oversight, and so are a range of other countries with highly developed economies.. On websites such as PCAOBUS.ORG and ASB.ORG.UK/POBA it is possible to access reports of inspections of the quality of the audit work of the Big 4 audit firms. On PCAOBUS.ORG one can also read how KPMG is being put under supervision in the US because of its sale of tax avoidance schemes. Ultimately authority seems to be coming through new combinations of old and new devices – in the case of KPMG fines and supervision coupled with the use of (bad) publicity through the verdict being placed on the Internet.

In 2006 a new body, the International Forum of Independent Audit Regulators (IFIAR) was formed with the aim of bringing together and ultimately coordinating activities of audit regulators at a global level. In 2007, meetings were held and links made both to the PCAOB and to the PIOB. This all represents a move away from self-governance – in other words the ‘limits’ of self-governance.

For developing and emerging economies then there are pressures to implement and to enforce IFRS/IAS and ISA from the World Bank. Its Reports on Standards and Codes (ROSC) on individual countries are revealing to the world the state of accounting and auditing regulation in individual countries, and where world bank money and other international financial support is needed, countries have to respond to the criticisms. For example the recent (2005) report on Uganda presents a picture of serious problems WORLDBANK.ORG/IFA/ROSC_AA_UGA.PDF, and discussed their solution. Again, these issues are being dealt with through a combination of old and new devices, the new including direct exposure on the World Bank website. This makes visible to the whole world (well those who have internet) the state of the country’s accounting and auditing – and how it differs from the ‘expected’ norms. This appears in association with ‘old’ methods of persuasion, ultimately conditionality – making the introduction and use of prescribed standards like those of IASB and IAASB mandatory before the country can get a loan (see Delonis, 2004). Again it seems that self-governance is far away her, but IFAC does itself play a role here.

IFAC is itself active in the arena of enforcement (which it refers to as ‘compliance’ and which falls under the compliance committee). In general, IFAC envisages that the way in which its standards will be implemented is through its member professional associations. As noted earlier, there are currently

legal recognition of ISAs in each of the 25 member states will be required. The EU is in many ways a special case, but a very important one..

June 2007) 155 members and associates in 118 countries¹³. IFAC declares that it works with its member organisations “to protect the public interest by *encouraging high quality practices* by the world's accountants”¹⁴ (our emphasis). It specifies that one of its three primary activities is striving “to serve the public interest through the development of standards in the areas of auditing, education, ethics and public sector financial reporting; by advocating transparency and convergence in financial reporting; by providing best practice guidance for professional accountants employed in business; and by *implementing a membership compliance program* (ibid. our emphasis). Thus the principle is that IFAC’s standards are implemented in a particular country, by the professional association (or associations) in that country. Compliance, in this context, means that professional associations must implement the standards and enforce them. Notably, one of the responsibilities of the PIOB is to oversee the actions of this committee (as well as those of the standard setting committees). This is thus an attempt at establishing self-governance.

In 2000 IFAC established a Compliance Committee “to review whether IFAC’s member bodies were complying with IFAC’s standards” (Street & Needles, 2002, p. 268). In 2003 “Statements of Membership Obligations” were issued (effective from 31 December 2004). They require:

“member bodies to use their best endeavours to meet the obligations. A member body will have been considered to have used “best endeavours” if it could not reasonably do more than it has done and is doing to meet the particular membership obligation”(IFAC SMO, 2004).

An example of a membership obligation is (from SMO 3):

Member bodies should notify their members of all International Standards, related Practice Statements and other papers issued by the IAASB ... member bodies should use their best endeavours to incorporate the International Standards and related Practice Statements issued by the IAASB into their national standards or related other pronouncements, or where responsibility for the development of national standards or related other pronouncements lies with third parties, to persuade those responsible to incorporate the International Standards and related Practice Statements into their national standards or related other pronouncements; and to assist with the implementation ... member bodies should have as a central objective the convergence of national standards ... with [those] issued by the IAASB (IFAC SMO, 2004: 24)

The “Compliance Committee” has been renamed the “Compliance Advisory Panel (CAP)” it:

“oversees the implementation and operation of the IFAC Member Body Compliance Program. The CAP is also responsible for making recommendations to the IFAC Board about the membership application process including recommending new applicants for membership. IFAC's compliance and membership activities are the responsibility of the IFAC staff and reports to the Chief Executive”¹⁵.

¹³ This may seem like a high number, but at a recent UN meeting 151 states were represented, so there is still some way to go, and in some countries e.g. Russia and China, the proportion of professional accountants covered by the professional associations which are a member of IFAC is small.

¹⁴ <http://www.ifac.org/About/> as at 19th September 2004

¹⁵ See: <http://www.ifac.org/Compliance/>

The Member Body Compliance Program (MBCP) is developing, and initial work on this project comprised the issuing of a questionnaire which member bodies were asked to complete (June, 2004), most member bodies have now completed it. The questionnaire was aimed at assessing the “regulatory and standard-setting framework” and has been followed by a “member body self-assessment”. According to IFAC’s website, “these assessments will provide a basis for IFAC to evaluate a member’s use of best endeavours in maintaining its membership in good standing and for agreeing to action to work towards further improvements in compliance with the SMOs”.

Elsewhere on IFAC’s website, it is noted that “the duties of the IFAC Compliance Committee include recommending the admission of an organization [a professional association] to the Board, and the monitoring of member body compliance with membership obligations”¹⁶.

It is notable that here the internet is being used in an innovative way to induce self-governance by member bodies – asking them to give IFAC (and the rest of the world through the website) knowledge about their own possibilities to govern their own members – and later their progress in doing this. The affordances offered by the internet are thus enabling a very small staff at IFAC, together with volunteers on the CAP, to attempt to govern a huge number of professional accountants, in fact professional accountants the world over. Seen in a historical perspective of what might have been imagined as the role for IFAC when it was formed in 1977, this is a fantastic ambition: an example of how IFAC in a sense ‘compresses’ the world at the same time as intensifying consciousness of the world as a whole¹⁷. So having made standards for the world’s auditors then it does not seem unnatural for it to be involved, albeit indirectly in the implementation and enforcement (or compliance as it is called here). In a sense it then takes on a self-regulatory role within the ‘regulative bargain’ with the international regulators. However, this has to be understood in the context of the aggressive new regimes of audit oversight

In the Wong report (2004) it tackles some of the problems and obstacles to achieving this ambition in the ‘real’ world – which are numerous. Ultimately, IFAC’s efforts criss-cross and reinforce in many respects those of other institutions like the World Bank and the PCAOB and IOSCO – and a kind of global governance of professional accountants seems to be emerging in a patchy complex way. This represents a small part of the emerging international financial architecture that the FSF are trying to build: but which is proving in most areas (as in auditing) a difficult task (see UNCTAD, 2005).

DISCUSSION AND CONCLUSION

Overall, this paper has sought to argue that IFAC’s rise to authority in the global governance of auditors and becoming in some senses more than just a meta- organisation representing the profession, but a professional association for accountants worldwide, is linked to: (1) the link which it has with the world’s largest and most powerful accountancy firms, who represent the other ‘face’ of the international profession; (2) the fact that the heads of the world’s leading nations in the form of the G7 have allowed the profession to retain its private authority in this standard setting arena: financial reporting has **not** been subsumed under an international governmental organisation; (3) that as a result

¹⁶ <http://www.ifac.org/About/Applications/MembershipCriteria.doc>

¹⁷ See Robertson (1992)

of this success of ‘private authority’, IFAC has obtained a crucial place in the networks of what has been called the ‘new international financial architecture’ making a ‘regulative bargain’ with the international profession which in can be seen as a **reconfiguration** of the kind of nation state/professional association relationship which developed at the national level.

As a result of a new and innovative ‘**regulative bargain**’ (Cooper *et al*, 1988; Cooper & Robson, 2006) made in 2003 (and further negotiated until early 2005) between international regulators and the international profession, IFAC has developed a structure where not only the international regulators, but also the Big 4 audit firms and representatives of the users of standards, all have formal roles within IFAC itself (see figure 1). This results in a kind of global corporatist governance which, through embedding all these parties within IFAC itself, embeds the politics of global regulation in this sector into IFAC. Legitimacy and authority to be achieved through the transparency and openness enabled through the affordances of the internet.

However, this ‘regulative bargain’ is complicated and shifting – for instance, IOSCO has continually made tougher demands on IFAC, and different parts of this global ‘state’ sometimes have different issues. For instance, the European Commission has a concern for IFAC to serve a wider range of stakeholders than does IOSCO. Even opinions within IOSCO may vary between the regions, so two representatives at a meeting, one from the US the other from the UK may put forward different arguments regarding the necessity to have more rules or simpler principles. Clearly the World Bank makes different demands than IOSCO, as it deals with the needs for standards of developing countries. There is ‘regulative competition’ between the different parties on both ‘sides’, emergent global state and emergent global profession.

If in this complex world we can identify something we can call ‘self-governance’ in the sense of the accounting profession, in a wide sense, having authority over a certain standard setting and regulative arena, here auditing, then has self-governance reached its limits here? In the neo-liberal economic understanding, auditors play a crucial role in the international financial architectures as the ‘guardians of truth in markets’ (Volcker, 2002). Is standard-setting for auditing, as a crucial back-room activity for a global market to exist at all, perhaps it is too important for regulators not to involve themselves? At the institutional level, the answer to this seems to be ‘yes’ – as the new financial architecture structures in this area illustrate. However, one interesting point to investigate further could be that at the level of the content of the standards, then it less certain that self-governance is something of the past. Important self-governance elements remain because of a wide understanding that there are technical elements in standard setting best dealt with by technically qualified professional experts. At the same time there is what can be called **professional indeterminacy** – in the sense that in standard-setting of the basic concept of ‘principles not rules’ enables an opening to be left for interpretations further down the line. Further the more specific concepts of ‘professional ethics’, ‘professional skepticism’ and ‘professional judgment’ – leave further space for self-governance in practice.

At the same time IFAC seems to be moving into a governance role over its own member bodies (whom it also ‘represents’), this is occurring through the use of membership obligations, ensuring that member bodies use their 'best endeavours' to make sure that IFAC's standards are adopted and implemented¹⁸.

¹⁸ NB In a way which appeals to using a governmentality framework to analyse it national

However, whilst much in the governance arrangements which have developed is **consensual** in character (see Germain, 2001), then the amount that IFAC can achieve through the membership obligations are limited in two ways – the first is that some professional associations have limited power to do what IFAC says as they are bound by national laws which say something different. More importantly in some very important emerging economies the professional associations of accountants which are members of IFAC actually only have relatively few members in proportion to the total numbers of accountants/auditors in the country (and China is a startling and problematic example of this). Rogue states are another problem. IFAC can end up with weak authority in these circumstances – so here we see a risky area of possible instability in the new international financial architecture. A huge stock market crisis starting in China and revealing problematic banks whose accounts had been auditing using ISAs by Big 4 auditors who followed all the international requirements as to independence and competence, then it might lead to yet another crisis of confidence which might go against IFAC. This is indeed a brave and dangerous new world of audit regulation which may end up changing (again) in new and as yet unthought-of ways.

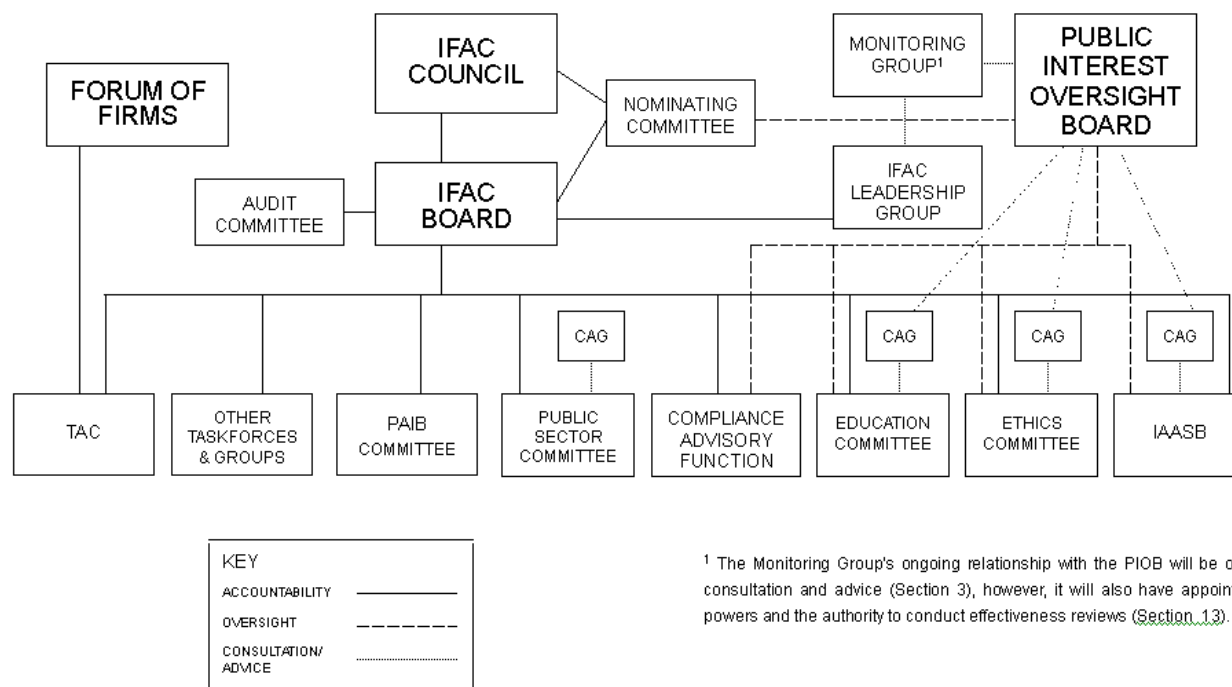
professional associations must answer long questionnaires which explain how they are living up to the demand for them to use their 'best endeavours' to implement IFAC's standards. These are loaded up on the IFAC website for anyone to see:

http://www.ifac.org/ComplianceAssessment/published_surveys.php

- which incidentally leaves the US association (AICPA) having to explain how its role is severely limited by the Sarbanes Oxley provisions which set up the PCAOB which now sets standards!

Figure 1: Approved Reform – IFAC Governance Structure (2003)

(Source – IFAC, 2003b, p. 26)



CAG stands for Consultative Advisory Group
TAC stands for Transnational Auditors Committee
IAASB stands for International Auditing and Assurance Standards Board

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Note that since this diagram was made (and as at 11th February 2006) the following changes have been made:

- Ethics Committee renamed: International Ethics Standards Board for Accountants (IESBA)
- Education Committee renamed: International Accounting Education Standards Board (IAESB)
- Compliance Advisory Function renamed: Compliance Advisory Panel (CAP)
- Public Sector Committee renamed: International Public Sector Accounting Standards Board (IPASB)

There is now a Developing Nations Committee and a Small and Medium Practices Committee (previously task forces)

ABBREVIATIONS

AICPA	American Institute of Certified Public Accountants
BCBS	Basle Committee on Banking Supervision
BIS	Bank of International Settlements
CAG	Consultative Advisory Group
CAP	Compliance Advisory Panel
EC	European Commission
EFRAG	European Financial Reporting Advisory Group
EU	European Union
FEE	Fédération des Experts Comptable Européens
FoF	Forum of Firms
FSF	Financial Stability Forum
IAASB	International Auditing and Assurance Standards Board
IAIS	International Association of Insurance Supervisors
IAPC	International Auditing Practices Committee
IAS	International Accounting Standard
IASC	International Accounting Standards Committee
IASB	International Accounting Standards Board
ICAEW	Institute of Chartered Accountants of England and Wales
IAESB	International Accounting Education Standards Board
IESBA	International Ethics Standards Board for Accountants
IFAC	International Federation of Accountants
IFAD	International Forum for Accountancy Development
IFRS	International Financial Reporting Standard
ILG	IFAC Leadership Group
IMF	International Monetary Fund
INGO	International Non-Governmental Organization
IOSCO	International Organization of Securities Commissions
IQAR	International Quality Assurance Review
ISA	International Standard on Auditing
ISAR	Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting
MG	Monitoring Group
PIAC	Public Interest Activity Committee (this includes IFAC's IAASB, the Education Committee and the Ethics Committee)
PIOB	Public Interest Oversight Board
POB	Public Oversight Board
PCAOB	Public Company Accounting Oversight Board
ROSC	Reports on Standards and Codes (World Bank)
SEC	Securities and Exchange Commission (USA)
SMO	Statement of Membership Obligations
TAC	Transnational Auditors Committee

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Table 1: International Federation of Accountants (IFAC) Summary of Characteristics (January 2006)

Dimension	Characteristics
Type of organisation	Non-state actor, Meta-organisation
Membership	Professional associations of accountants: 155 members and associates from 118 countries representing 2.5 million accountants worldwide (as at 30 th June 2007)
Zone	Global financial sector – part of ‘new international financial architecture’
Head Office	New York
Period of activity	Formed 1977; only gained significant authority since late 1990s
Staff	Ca 40 permanent + many volunteers from member professional associations sitting on committees
Funding	Member bodies and the large audit firms (especially the Big 4)
Major activities	(1) Setting international rules for professional accountants (2) Representing the international accountancy profession (3) More recently: introducing a compliance programme to ensure that member bodies make their ‘best endeavours’ to ensure the standards are used.
Best known for	Producing International Standards on Auditing ISA (through IFAC’s sub-committee the International Auditing and Assurance Standards Board IAASB).
Biggest ‘customer’	European Commission: Becoming compulsory for auditors to follow ISA when doing statutory audits in EU member states (2 million audits)
Most difficult task	Trying to ensure that the 2.5 million auditors who are members of its member bodies ultimately use the standards. This is difficult, as IFAC has no direct authority over individual practitioners, and the use of the standards is dependent on member bodies and national and international regulators in varying proportions and at varying times, endorsing them, ensuring they are used and enforcing compliance - all this in many different languages.
Competition	US also produces auditing standards, these apply for the audits of all companies quoted on US stock exchanges and thus also extraterritorially to foreign auditors. Working with IAASB on convergence of standards
Use of internet	(1) Internal communication: intranet – staff, committee members (2) External communication: extensive website: www.ifac.org . Provides detailed information including the structure of the organisation, meetings, downloads include standards, exposure drafts and comments on them. (3) Public participation: can register to observe certain meetings, submitting comments etcetera
Basis for authority	Reconfigured professional authority in a global arena dominated by international regulators, the Big 4 and powerful states (especially USA)
Type of governance	Technocratic network governance where internet is a significant enabling factor, legitimacy based on technical expertise, acting in the public interest
Special characteristic	An organisation creating international standards where regulatory oversight is embedded in the organisation itself in the form of the PIOB