

## **FSF-IASB-IFAC Roundtable on Financial Reporting and Auditing**

### ***“Regulatory and practical challenges in quality implementation of IFRS and IFAC standards”***

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#### **Introduction**

I am pleased to have been invited to today's roundtable and to have an opportunity to present the perspective of the Public Interest Oversight Board on regulatory and practical challenges in achieving quality implementation of financial reporting and auditing standards.

I am also pleased – and very grateful -- to see my good colleague Philippe Danjou beside me on this panel. While we are likely to identify a number of the same issues – whether or not we see them in quite the same way – there may be others that are unique to financial reporting standards or that are more focused on challenges at the regional or national level. These I will gladly leave to Philippe to address.

At the time of the first roundtable in October 2004 the PIOB was still a concept, waiting for activation. Although I was not at that event, I believe that participants looked forward with anticipation to how the Board would contribute to the broader process of restoring public confidence in the auditing profession.

Now that the PIOB is approaching its first anniversary, I believe I can speak for my fellow members when I say that this has been a year of significant learning. Our task has been twofold: to deepen our understanding of what it is we have been asked to oversee; and, to develop a solid sense of our role as independent overseers in the public interest. I also trust that Graham Ward will agree that the PIOB has already added good value through its independent consideration of IFAC's already strengthened Boards, committees and standard-setting processes.

#### **The standard-setting process is a delicate balancing act**

If there is one issue that overarches all others, it is how to balance a number of competing objectives in the standard setting process. Is it a matter of compromise, or of putting in place sensible checks and balances, or both? And what happens if the right balance is not achieved?

From the PIOB's perspective, this issue arises from three factors – the need for high quality standards, the need to draw largely from the profession to set these standards, and the need to ensure that a broad range of public interest needs will be met by these standards.

#### ***Factor #1 – Must technical excellence be the highest priority?***

It's well known that any strength taken to extremes becomes a weakness. For example, the pursuit of technical excellence without due regard for other important factors may result in a standard that is difficult to understand and, even when understood, difficult to apply for a variety of reasons.

This does not mean that technical excellence should not be a critical priority in standard setting. It must, because even with perfect understanding, implementation and compliance mechanisms, a poor quality standard cannot promote a high quality practice output. Therefore, anything less than a high quality standard is simply not in the public interest.

The challenge becomes how to develop high quality standards that are also relevant to a broad spectrum of financial statement users and that support consistent, high quality implementation outcomes at regional and national levels.

#### *Factor #2 – Should standard setters be recruited primarily from the profession?*

Developing high quality standards requires both expertise and consideration of users' needs. Balancing these two factors creates a further challenge.

For example, auditors are, by definition, practitioners in the same way as other professionals who serve the public interest. Without continuous exercise of their skills and ongoing professional development, auditors risk becoming liabilities to their clients, to the profession and ultimately to the general public. Therefore, it seems not only natural but prudent to recruit expert standard-setting resources from among the ranks of active practitioners.

At the same time, this approach creates the risk of a self-centred process focusing on technicalities and views from only one perspective. Without appropriate checks and balances, such a process may lead to decisions on priorities and on individual standards that fail to identify and adequately address the needs of other, non-practitioner stakeholders not represented around the table.

The intuitive answer to this question would seem to be obvious: shift the balance toward more non-practitioners. But achieving the right balance between practitioners and other experts requires sensitivity to the potential impact of various possible changes on both process and output quality. Also, the answer may be different depending on the remit of a particular standard setting board, or may need to change over time.

Finding that optimum balance, and ensuring that this balance remains responsive to changing needs and circumstances, will be a continuing challenge.

#### *Factor #3 – How much external consultation is needed and who should be consulted?*

In addition to the tradition of publicly exposing and calling for comments on draft standards, many standard-setting bodies have created formal advisory groups to provide them with broad-based and continuous input during the standards development process. In our view, this type of communication is essential to the development of high quality and broadly useful standards because a truly effective standard-setting due process also requires a truly open consultation process.

However, here, too, the challenge lies in identifying and recruiting the right mix of skills and perspectives for the advisory group while limiting growth to a size that can continue to function effectively. The Consultative Advisory Groups supporting IFAC's standard setting boards are still relatively new, so the PIOB will be interested in seeing how each group's membership, operations and goals will evolve.

#### *Factor #4 – National Oversight*

While I've focused primarily on standard-setting challenges, I would be remiss in not acknowledging the important and growing role of national oversight bodies.

These bodies have been assigned the critical task – in some cases only one among other equally important tasks – of establishing the degree to which standards approved for use in a given jurisdiction have been appropriately implemented and are being followed.

Strong liaison and co-ordination among these groups is needed to promote the use of best quality national oversight practices. Over time, and especially in view of the number of national jurisdictions who are, or who plan to, implement ISAs over the near term, there may be further benefits to be derived from regular dialogue and, where appropriate, co-ordination of efforts between these groups and the PIOB.

Thank you for your attention.