The role of accountancy in economic development
ABOUT ACCA

ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants. We aim to offer business-relevant, first-choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management.

We support our 147,000 members and 424,000 students throughout their careers, providing services through a network of 83 offices and centres. Our global infrastructure means that exams and support are delivered, and reputation and influence developed, at a local level, directly benefiting stakeholders wherever they are based, or plan to move to, in pursuit of new career opportunities. Our focus is on professional values, ethics, and governance, and we deliver value-added services through our global accountancy partnerships, working closely with multinational and small entities to promote global standards and support.

We use our expertise and experience to work with governments, donor agencies and professional bodies to develop the global accountancy profession and to advance the public interest.

Our reputation is grounded in over 100 years of providing world class accounting and finance qualifications. We champion opportunity, diversity and integrity, and our long traditions are complemented by modern thinking, backed by a diverse, global membership. By promoting our global standards, and supporting our members wherever they work, we aim to meet the current and future needs of international business.
Introduction

ACCA is a strong supporter of the work of UNCTAD’s Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR). Both organisations believe strongly in the importance of the role that high-quality accounting, financial reporting and auditing can play in improving economic performance.

This paper, prepared for the High-Level Meeting on Accounting for Development in Doha, Qatar, on 22 April 2012, sets out key areas where ACCA believes professional accountancy can contribute to sustained economic development. It suggests areas in which international accountancy bodies such as ACCA, UNCTAD-ISAR and the International Federation of Accountants (IFAC) can collectively promote an enhanced contribution to economic success.

The issues covered here include many of those closest to the heart of ACCA. Firstly, capacity-building initiatives to enhance the accountancy profession and, in turn, the wider economies in emerging nations have been central to ACCA’s strategy for more than 25 years. Giving career opportunities to people of talent, whatever their background, is in our DNA, and working with local, regional and global bodies to build capacity has always been central to our approach. Put simply, strong national professions are required to develop a strong global profession. Even where professions are mature, there is always room to improve quality, and an urgent need to ensure we communicate the value we bring to business, government and regulators.

As an international body with members in over 170 countries, ACCA has always taken a global approach to major issues; ACCA was the first body to train its students in international financial reporting standards. So promoting the benefit of global standards has always been important to us – we firmly believe that the accountancy profession can enhance its contribution to world trade by establishing globally credible standards that allow comparability of information and hence facilitate capital flows.

Sustainability is the theme of the UNCTAD XIII ministerial conference. ACCA is widely known for its long-standing commitment in this area. We were researching and advising on environmental reporting in 1990, long before it became an established area for accountants. This commitment remains today and we are pleased to be working with like-minded organisations who are signatories to the Corporate Sustainability Reporting Coalition led by Aviva Investors – such as the Global Reporting Initiative (GRI), the UN Global Compact, UNCTAD and WWF-UK – in attempting to secure clear commitments for action at the UN Rio+20 event in June.

If companies were to integrate sustainability information into their corporate reporting it would be a major step forward. More generally we would welcome efforts to enhance ESG (environmental, sustainability and governance) capacity similar to those for capacity building for more traditional corporate reporting and accounting. We hope that the momentum generated by the integrated reporting initiative will lead to a renewed focus on ESG issues.

Lastly, we do believe that while standards can play a crucial role in enhancing reporting, the standard-setting process itself currently suffers from duplication and lack of coordination. In this confused setting, the voice of the investor, which should be at the heart of financial reporting, is all too often unheard. While standards and governance should and must be set with the ultimate view of protecting the public interest, standards themselves will be most effective, in our view, when they work for business and to enhance investor confidence.

ACCA wishes all delegates a happy and informative conference; we would be pleased to discuss the issues contained in this paper with any interested party.
1. Capacity-building

Before this conference, UNCTAD-ISAR said:

Accounting plays an essential role in economic development. High-quality corporate reporting is key to improving transparency, facilitating the mobilization of domestic and international investment, creating a sound investment environment and fostering investor confidence, thus promoting financial stability. A strong and internationally comparable reporting system facilitates international flows of financial resources while at the same time helping to reduce corruption and mismanagement of resources. It also strengthens international competitiveness of enterprises in attracting external financing and taking advantage of international market opportunities.

In the wake of various financial crises continued efforts are being made towards improving the quality of corporate reporting as an important part of measures towards strengthening the international financial architecture. In this regard the implementation and application of internationally recognized standards, codes and good practices in the area of corporate reporting has been strongly encouraged as a reflection of the increasing pace of globalization and international economic integration. However, the effective adoption and implementation of such standards and codes remains a challenge for many developing countries and economies in transition as they lack some of the critical elements of corporate reporting infrastructure – from weaknesses in their legal and regulatory frameworks, to lack of human capacity and relevant support institutions. In the face of these challenges there is a need for a coherent approach to building capacity in this area, as well as for tools to measure and benchmark progress and identify priorities for further actions.

ACCA wholly endorses these views and assessments. We see good-quality financial infrastructures as essential to the development of emerging economies – as is enhanced physical infrastructure, such as improved roads and railways, cables for communications and secure pipelines for water and electricity. The development of robust governance and effective financial reporting in emerging economies is analogous to that of this physical infrastructure. If the resources invested in putting the plumbing in place cannot be accounted for, then what will stop the roads going nowhere, the energy disappearing, and the communications breaking down? For those investing in private businesses in these economies, the necessary corporate reporting plumbing is vital for ensuring an acceptably high level of assurance.

For accountants this means that the institutions, the standards and the people need to be in place, functioning and fit for purpose. So it is essential that international accountancy bodies work together to ensure that the necessary accountancy capacity is developed to underpin national economies.

This is why ACCA has taken such an active role in capacity-building initiatives over the past 20 years. We have worked closely with national bodies to enhance not only their ability to provide robust syllabuses and qualifications but also the regulatory and oversight aspects of being a professional body. This has often happened in countries that have lacked awareness of the high value of professional audit and accountancy, and so the professional body has been relatively lacking in influence. We have worked with the World Bank and on other donor-funded projects all over the world to assist countries in developing action plans to underpin transparent and sustainable reporting regimes, which in turn bolster commercial infrastructure. We have often engaged in ‘train the trainer’ initiatives in markets that suffer from a lack of quality accountancy training for students.

Mike Walsh of ACCA, who is also a resource support to the UNCTAD-ISAR project, says: ‘ACCA has also been instrumental in drafting IFAC’s International Education Standards, which form the basis of the education and training component of ISAR’s capacity-building framework’.

Building an accountancy infrastructure is a complex process because it is part of an economy’s legal and regulatory system. It needs to be attuned to the interests of many stakeholders and the availability of financial, educational and human resources. Capacity building helps reinforce proper legal frameworks and institutional arrangements. It is concerned with developing and upgrading certain skills, competencies and performance. It is also about enhancing the capacity of individuals, groups or institutions that are to carry out corporate reporting, for it is reporting (which is covered in more depth below in the section on global standards) and transparency that often drive improvements.
The Asia–Pacific crisis in 1997/8 gave huge impetus to the spread of international financial reporting standards as international investors demanded more transparency in company reports and easily comparable data. These countries largely had the accountancy infrastructure to introduce them. While the US implemented Sarbanes–Oxley and Europe introduced reform through the Eighth Directive as a response to this and other crises, notably the corporate scandals in the US in the early 2000s, it was not clear what action should be taken by the rest of the world.

The World Bank introduced Reports on the Observance of Standards and Codes (ROSCs) for audit and accounting, which take into account the different levels of development and varying priorities in different countries and regions. Produced as a joint initiative with the International Monetary Fund, the reports assess the strengths and weaknesses of existing frameworks and accounting practices, including the degree of compliance with and enforcement of national regulatory systems. ACCA believes they provide a sound measure of the robustness of countries’ accounting systems. Many developing countries, however, face a challenge in coping with implementation of the international accounting and auditing standards, and lack sufficient regulatory resources and qualified professionals.

The spread of IFRS had taken it to over 100 nations by 2009, and many more countries (including those seeking accession to the European Union, which adopted IFRS in 2005) were also keen to join the same accounting regime, so UNCTAD was asked to work towards a capacity-building framework to underpin the new reporting requirements. As head of enterprise development, Tatiana Krylova, has said: ‘IFRS is the tip of the iceberg. It needs to be supported by different in institutional and technical capacities, which are lacking in some countries.’

ACCA is proud to be playing an active role in UNCTAD’s efforts, providing technical resources and support for the questionnaires and round-table discussions that form part of the worldwide capacity-building project. The main pillars of this are:

- the legal and regulatory structure
- the institutional framework
- human capacity, and
- the capacity-building process itself.

Accountability is at the heart of capacity building, and this is certainly the case in the Middle East. A strong accountancy profession in this region is essential to economic development and also economic confidence, both in the public and the private sectors. Capacity building is also about building sustainable and ethical businesses that work in the public interest. In the current global economic climate, that is no mean feat; but it is an achievement for which we should be aiming.

MICHAEL CLIFFORD, CEO, AL FAHIM INVESTMENTS, DUBAI, UAE
As shown in the above section, the requirements and demands of quality reporting can drive other improvements in countries’ accounting capability. The global spread of IFRS over the past decade has been the most dramatic example of this. ACCA has always been a firm supporter of the regime and was the first international accountancy professional body to introduce IFRS into its own qualification.

We are also strong believers in the benefits of global standards. We have already seen that a sound financial system, supported by high-quality accounting and auditing standards and backed by a solid regulatory, governance and ethical framework is a prerequisite for economic development. But international investors prefer dealing in standards that they know, and so greater cross-border trade will take place with the underpinning of global standards, which will in turn increase prosperity.

In summary, the advantages of global standards are that:

• they encourage transparency and easy comparison in transactions that cross borders and jurisdictions
• translation and reconciliation costs are removed
• all companies have improved ability to attract capital from a larger pool of investors, driving down costs of capital
• opportunities for regulatory arbitrage are eliminated.

These benefits aid both businesses and regulators. Cross-border mergers and acquisitions activity and strategic investment are facilitated while national regulators (in the absence of global regulation) can work together and develop supervisory practices that are more closely aligned. Investors – who are equally comfortable investing in a range of global equities as in national ‘blue-chips’ – benefit from greater transparency and comparability, less volatility and, consequently, less risk. If accounting for the same events and information produces radically different reported numbers depending on the system of standards being used, then it is self-evident that accounting will be generally discredited in the eyes of those using the numbers.

Business – being increasingly multinational in nature – benefits from not having to bear the compliance costs associated with struggling with a plethora of different financial reporting rules. Businesses also know that their subsidiary operations around the world are being audited to a common standard by properly qualified professionals (under International Standards of Auditing). For individual companies it should be the case that greater confidence in reliable and transparent information will translate into a lower cost of capital – reduced interest costs and higher share prices.

Lastly, the profession benefits because harmonisation of requirements also assists the international mobility of accountants themselves, who may wish to work in different countries or for different companies. Mobility of skilled labour can only be a good thing.

ACCA believes in evidence-based policy and so has carried out various international research and survey projects on IFRS over the past ten years to see if these stated benefits are actually realised in practice. We can report that there has been a consistently positive outcome.

In 2007, a survey of CFOs in Malaysia, Singapore, Hong Kong and mainland China strongly supported the adoption of IFRS, believing it added value to the Asian capital markets by creating easy comparability for Western investors and by allowing a principles-based approach. And a follow-up survey ACCA carried out in late 2008 showed that 500 CFOs across Europe, Asia and the US agreed on the benefits of global reporting standards.

A separate study commissioned by ACCA at the same time also revealed that UK companies had seen a reduction in costs of capital of between 1% and 2% since the introduction of IFRS in 2005, while for the EU as a whole, the figure was 1%. It appears that in countries where equity-based financing dominates, and corporate disclosure quality is already high, the implementation of IFRS leads to greater rewards.
Most recently, ACCA carried out a survey in August 2011 of 163 senior executives (CFOs and investors) across the US, Europe, Middle-East and Asia, which found evidence that access to capital for companies was indeed increased and its cost reduced by IFRS adoption and, notably, that as countries gained experience in using global standards so their support for the system tended to increase.

We hope that the US will bear this in mind as it continues to deliberate over whether to join the IFRS system. A full US commitment would be a tremendous boost to the cause of global financial reporting and, more importantly, to the world economy. For as global trade talks stutter, we cannot afford to see fracturing of the global accounting system, which an ultimate ‘no’ from the US could trigger. Already there are too many ‘carve-outs’ by governments from the IFRS system – we would urge national policymakers to resist this as far as possible, for this is a direct threat to the integrity of the regime.

Policymakers have given global standards their blessing since 2009 when G20 summits began calling for one set of accounting standards. ACCA believes it is crucial for the world economy that this happens.

Accountants need to work with a wide range of standards and regulations, but in an increasingly competitive investment market, a pertinent question to ask is whether these standards are right for investors and right for a global business environment? We are seeing a move towards convergence of global standards, and lobbying to stave off fragmentation. The use of international standards, rather than national, can add credibility to financial reports and statements, especially when it comes to international standards in financial reporting and auditing. Consistent, global standards can make for sustainable businesses and growth.

AZZA RASLAN, EXECUTIVE DIRECTOR, T SOLUTIONS, QATAR, AND ACCA COUNCIL MEMBER
ACCA has been a long-term supporter and promoter of sustainability reporting and corporate transparency. We established the world’s first environmental reporting awards in 1991, became a member of the GRI Steering Committee in 1998, and helped write the first GRI set of Guidelines, which were launched in 1999. We have been involved in the GRI Governance since then, as well as becoming involved in other global and highly respected reporting initiatives such as the Prince of Wales’ Accounting for Sustainability (A4S) programme and the Climate Disclosure Standards Board framework. ACCA has also undertaken a number of detailed surveys on specific non-financial disclosures, such as bribery and corruption, human rights, and human capital management.

We believe that organisational accountability is an imperative and being transparent and reporting on issues and impacts can help achieve this. Accordingly, we believe all major entities in the public and private sectors should report publicly on the impact of their activities on the environments and societies in which they operate, along with reporting on their policies and how these have been translated into practice.

We also believe that the credibility of such disclosures can be enhanced by engaging with stakeholders and responding to their requirements and concerns, as well as seeking third-party independent assurance on the content of such reports.

ACCA is involved in the GRI’s G4 process, a two-year revision programme of the GRI’s 3.1 Guidelines, to be launched in 2013 and initiating a new era of sustainability reporting.

We believe long-term value is enhanced when companies embed sustainability into their business strategy and key processes, rather than treating it as an add-on activity. We also believe that this needs to be reported and fully disclosed to stakeholders. The future sustainability of the company has to be at the heart of corporate decision making and this should enhance not only the individual business but also the quality of the stock market as a whole, as superior information, rather than short-term, incomplete data, will begin to define markets.

I welcome Sustainability as the theme of this UNCTAD conference. To have any chance of reversing climate change, moving to a low-carbon economy is key. A low-carbon economy – one that relies very little on, and uses very few fossil fuels and energy sources with high greenhouse gas emissions – will improve the planet’s success rate of tackling our climate predicament. It can be done – Masdar City in Abu Dhabi is under construction and will be the world’s first zero-carbon, zero-waste city powered entirely by renewable energy sources. An accountant’s role here is crucial and ranges from evaluating returns on low-carbon investment proposals to auditing carbon disclosures.

ARMANDS CAKSS, CFO, IRENA (INTERNATIONAL RENEWABLE ENERGY AGENCY), DUBAI, UAE
Having emphasised our belief in the importance of sustainability issues and reporting, we nonetheless have to accept that the scale of the global financial crisis has led to a decline in interest in these issues, at least in the short term, among some stakeholders. A recent report published by ACCA on the future of corporate reporting (January 2012) showed that many investors were less focused on sustainability matters since the onset of the crisis and other issues such as risk were now more important to them.

Yet, importantly, the same survey showed that if sustainability data could be integrated into the report as a whole, then it would be valued more highly. The ACCA survey on global standards (August 2011) also found considerable interest in the potential benefit of integrated reporting. More than two-thirds of respondents said there was much to be gained – both in enabling better decision making and in providing a more accurate picture of overall performance – from the presentation of financial, governance and sustainability information in an integrated format.

Integrated reporting has emerged as an important development in corporate reporting since the GFC. The essential drive behind integrated reporting is that there are currently myriad corporate reports (the annual review, the management commentary, the chairman’s review, CSR reports, etc) that all contain valuable information but are aimed at different audiences and are usually unconnected. While they tell us a lot individually, they are prepared in silos and fail to spell out clearly how the company’s performance relates to the business model. So there appears to be a need for the corporate strategy and business model to become integrated and inclusive of all material issues, and the aim is that an integrated report will bring all this information together in a coherent way.

All the information issued in corporate reports should be linked. Short-term information can tell the investor if the long-term plans are realistic and long-term information can indicate whether seemingly impressive short-term figures are actually that good. So a bigger, forward-looking picture is what has been missing from the corporate reporting mosaic.

This is why ACCA has been an enthusiastic and active supporter of the International Integrated Reporting Council. ACCA CEO Helen Brand is a member of the IIRC strategic steering committee, which issued a consultation document on a draft framework in September 2011.

The emerging Integrated Reporting model is intended to reflect the interconnected nature of environmental, social and governance factors in organisations’ annual reporting. The IIRC describes IR as being:

- a holistic approach to enable investors and other stakeholders to understand how an organization is really performing. Addressing the longer-term consequences of decisions and actions, an integrated report makes clear the link between social, economic and environmental value.

Communicating the relationship between an organisation’s strategy, governance and business model is central to the model, alongside an analysis of the impacts and interconnections of material financial and non-financial opportunities, risks and performance across the value chain. By embedding governance and sustainability it fulfils the ‘triple bottom line’ principle conceived many years ago, and whose time, post-global financial crisis, may now have come.

We hope the Rio summit will prove to be a watershed in this respect. Given the correlation between sustainable business practices and long-term company success, ACCA would like to see an obligation on companies (via national regulations derived from a convention on corporate sustainability at the Rio summit) to integrate material sustainability issues within their report and accounts on a ‘comply or explain’ basis. This requirement would stimulate substantive board discussions on the risks and opportunities arising from sustainable development issues.
ACCA is a member of the Corporate Sustainability Reporting Coalition, a collection of high-profile organisations convened by Aviva. This investor-led coalition has helped to place a requirement for material sustainability disclosures to be made mandatory onto the Zero Draft paper of the forthcoming United Nations Conference on Sustainable Development in Rio in June 2012.

As currently written, the so-called ‘paragraph 24’ will ‘call for a global policy framework requiring all listed and large private companies to consider sustainability issues and to integrate sustainability information within the reporting cycle’.

ACCA, like Aviva, would ideally like this to be toughened and expanded. The text would be enhanced by greater reference to both the role of the private sector and accountability and to be more action-oriented.
5. Standards for business

The case for global standards is examined in section 2. ACCA believes the standard-setting and regulation-forming processes themselves need further examination.

At the moment, there are myriad national and international inquiries/investigations into areas such as audit, with little apparent coordination. As there are various standards boards, issues can often be looked at in silos, rather than the interrelated way that is necessary. Audit and corporate reporting are wholly related yet no single body looks at both. In addition, there is no formal process for the promulgation of consistent standards for corporate governance – yet governance failures were at the heart of the global financial crisis. The ACCA report on global standards also found considerable interest among CFOs and investors for possible global standards or benchmarks, with 70% of respondents saying they would encourage more long-term thinking in the boardroom.

There is another fundamental problem – the voice of the investors is not being clearly heard. Consistent engagement with them has proved difficult and theirs is rarely the starting point for any debates on accounting, and yet they should be at the heart of it, given that accounts are intended primarily for shareholders.

ACCA, in a joint initiative with Grant Thornton, has sought to address this issue in recent months by co-hosting global investor panel discussions, which have captured some of the needs and priorities of investors on financial reporting issues. The two organisations believe that a continuing campaign to put investors’ needs at the heart of the agenda would enhance the accounting and wider financial spheres.

We both believe that enhanced engagement with stakeholders, especially investors, would help in:

- developing a positive agenda for change
- recognising the real impact on business of any change
- placing investors’ needs and concerns at the heart of the system
- helping policymakers in identifying issues and priorities
- generating a more integrated and coherent view of interrelated issues
- obtaining evidence on which to base policy.

ACCA argues that a model in which all key parties are brought together (whether via a formal panel or other means) under the heading of ‘Standards for Business’ on key accounting, auditing and governance issues could ultimately lead to a significant improvement on the current fragmented approach to regulation and standard setting. While there are some excellent examples of collaboration around the world, for example in the increasing dialogue between IFAC and IASB, and between independent regulators, we believe that more can be done to bring participants together. Ultimately, we recognise the need for everyone involved in the financial and accounting ‘ecosystem’ to keep the public interest uppermost in their thinking. We believe that much can be gained by an integrated approach that ensures that standards work for business and enhance investor confidence.