

2013 Australian Accounting Hall of Fame Awards Ceremony and Dinner

Introductory Address

By Warren McGregor

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Good evening ladies and gentlemen. It is an honour to be able to share some introductory comments with you this evening.

At the outset let me acknowledge those who have who have made the evening possible; in particular, the Department of Accounting through the Centre for Accounting and Industry Partnerships, an initiative that provides an opportunity for the university to engage with the accounting profession and industry. Also The Institute of Chartered Accountants Australia and CPA Australia as major sponsors of the event, and the Faculty of Business and Economics for its ongoing support.

When Colin Ferguson asked me to give the opening address tonight, I pondered for some time over what I might share with you. Although I was unable to attend last year's presentation I am aware that Rupert Myer chose to focus on the contribution members of the accounting profession make to Australian society, including the creative arts. One of the statements he made struck a chord with me, excuse the pun. He said:

"It is worth contemplating...whether we would have navigated the momentous changes that have occurred as successfully as we have without men and women with expert accounting skills and possessed of high integrity, operating within a framework of rigorous accounting standards and the oversight of their accounting profession".

It is indeed refreshing and encouraging to hear such a glowing tribute from a highly respected person who is not, on his own admission, a part of our profession. But more than that, his words shine a light on an intangible element that I believe truly underpins our profession and engenders the respect that accounting professionals have in the broader community.

The framework for developing the highly respected accounting professionals celebrated by Rupert Myer, we might even call it a conceptual framework, consists of many parts, and Myer referred to some of them – expertise, technical standards, monitoring and compliance. But in my view the essential element, much like the 'asset' element in the accounting conceptual framework, is what he referred to as 'high integrity' and we refer to as 'professional independence'. It is both fundamental and pervasive. It is expected of our members and of the institutions that govern our behaviour, in particular those that establish our professional and technical standards. If our independence is brought into question we

run the risk of losing that hard earned respect and, moreover, our pre-eminent role in business and the general community.

I raise it with you this evening because I fear that we have reached a point where serious questions are indeed being raised about our independence as a profession. Only last week I had a conversation on the issue with one of the world's leading accountants, Sir David Tweedie. He has just finished his term as President of the Scottish Institute of Chartered Accountants and so he has been in the middle of attempts by the European Union to impose further regulations on auditors to address concerns about independence. He expressed the view that the profession is on the brink of sliding into disrespect and possibly irrelevance and he believes the recent actions of the EU are just the latest manifestation of a much broader and deep seated concern.

Now I know David is prone to exaggerate a little at times to make a point, but I think it would be folly to dismiss such concerns as an overreaction to knee jerk reactions by regulators and others in the wake of the GFC, and to assume that order will be resumed when the world's economies return to normal.

So what has been happening?

I believe there are two separate forces at play and the profession is caught in somewhat of a pincer movement.

First, community expectations have been changing. As markets have interconnected and as more and better informed players have participated in those markets the bar has been steadily raised. Market participants, and by extension the broader community, are demanding greater assurance that we are independent. When they perceive potential conflicts of interest, for example, when we audit the same clients for long periods, when a significant percentage of our fees are derived from too few clients, and when we provide other services to audit clients, they are less easily fobbed off by our retorts that we have professional standards in place and we are actively managing the risk.

Secondly, those with a vested interest in undermining our independence have become better organised and more determined in their attempts to bend the rules or indeed to have less demanding rules in the first place.

During my time on the IASB I witnessed coordinated actions by banks, supported by their toothless tiger regulators, pressuring auditors and the IASB itself to avoid or lessen write downs on their asset portfolios. A measure of their success is the fact that in Europe today many banks continue to carry assets at amounts clearly unrepresentative of their underlying value.

I have also witnessed first-hand blatant attempts to intimidate accounting standard setters in order to achieve less demanding standards and less transparent financial reporting outcomes. I recall President Bush offering us advice on accounting for stock options on behalf of Silicon Valley, and President Chirac doing likewise for the French banks on hedge accounting.

I have also witnessed attempts to undermine the independence of the IASB by agitating for changes to the way the Board operates, the structure within which it operates and even the composition of the Board. Perhaps even more alarming, I witnessed an attempt to directly interfere with the Board's decision making, an event that caused David Tweedie to pen a letter of resignation which he withdrew only after reassurances from the then chairmen of the US Securities and Exchange Committee and the Japanese Financial Services Authority.

So what needs to be done?

First and foremost we need to admit that there is a problem. We then need to engage in constructive debate both internally and externally.

Within the profession we need to reassess our educational requirements, our professional standards and the systems and procedures that give effect to those standards.

Externally we need to engage in constructive debate with policy makers to better understand the reasonable expectations of market participants and the broader community. And we need to be prepared to support significant change. An example of the types of changes we should be prepared to entertain is to move the International Auditing and Assurance Standards Board, the International Public Sector Accounting Standards Board and the International Ethics Standards Board away from the profession and either set them up as independent boards or relocate them within a presently existing independent standard setting structure such as the IFRS Foundation. In this particular context, it was encouraging to see the Institute recently publish a thought leadership paper advocating such a move for the IPSASB.

Let me conclude by encouraging you to join the debate and asking you to join with me in applauding the Department of Accounting and the Centre for Accounting and Industry Partnerships for giving us the opportunity to celebrate distinguished members of our profession and to engage in discussions on leading edge issues affecting the profession.

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