

## THE GLOBAL FINANCIAL CRISIS AS INCENTIVE FOR ENHANCING ASSURANCE FOR FINANCIAL REPORTING

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*ABSTRACT: The article aims to analyze world-wide financial crisis' impact and implications as regards assurance for financial reporting, starting with and comparing reactions of international accounting and audit professional organizations, as regards possible accounting professional's contributions to economical stability, and establishes the global crisis as incentive for enhancing assurance for financial reporting.*

*Key words: assurance, financial reporting, economical global crisis;*

*JEL codes: G0, Z0, M41.*

### Introduction

International reactions, due to unexpected gravity and consequences of credit crisis, which presents unique challenges for management and auditors, appeared subsequently. As an answer to economical global crisis, accounting and audit professionals, at international level, through organizations such as IFAC(International Federation of Accountants), FEE(Fédération des Experts comptables Européens), IASC (International Accounting Standards Committee) laborates reactions to the actual global crisis environment with global resonances.

The global crisis brings out the concept of « Restoring confidence » in financial (and non-financial) information. The need for better information is critical in facilitating well-informed decision making that takes account of risk and all economical environment factors, and leads to the need of assured information. Assurance for financial reporting has the role of reinforcing, enhancing the confidence in accounts.

**Research methodology:** The article surveys and compares reactions of international accounting and audit professional organizations, establishing, using deductive reasoning, the general trend and conclusions.

### Literature review.

#### Assurance for financial reporting. Why, whom for, how?

Once again the global financial crisis puts in spotlight assurance for financial reporting, a concept with American origins, which catches more and more attention world-wide. The need for assurance is born under factors such as: the need for information' explosion, the intensity of competition, and the continuously developing informational technologies. All these factors have an enhanced effect considering the conditions of global crisis. Investors need independent assurance, as regards financial reporting and others financial indicators of companies. Accounting experts offers a kind of assurance as regards information contained in financial or non-financial reporting including the performance of audits of historical financial reporting. The Special Commission of

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Assurance Services created by AICPA (American Institute of Certified Public Accountants) defines Assurance services as “independent professional services that improve the information’ context in order to take decisions”, and firms of audit and assurance talk already about “assurance professionals”. IFAC professionals consider that “financial audit is the highest form of assurance that a professional can give about information...“.

Assurance for financial reporting becomes essential in reducing skepticism of financial information’ users (managers and all categories of stake-holders), users that, in order to take decisions, now, more than ever, taking into account the crisis, need assurance. FEE believes that reports provided by independent practitioners, monitored by a quality assurance system, enhance the credibility of the information reported by an organization.

Assurance is practically the *conclusion* as concerns the result of evaluation and measurement of a problem, the evaluation of presentation through financial reporting (the product), resulted after applying a conceptual measurement, recognition, and presentation framework, such as International Financial Reporting Standards (criteria) as regards the patrimonial situation and financial position of an entity, the financial performance and cash flow statement (the problem). “Assurance can be described as obtaining a degree of confidence by an independent practitioner to a party or group of persons in relation to certain subject matters”(FEE, 2009). The assurance is given by the auditor that ulterior examines critically and evaluates depending on an accounting referential, with the scope of guarantying correspondence between these assertions and accepted criteria. The auditor offers a high degree of assurance in case he appreciated that the audited data express correctly (truthfully) under all significant aspects operations and transactions during a financial year, or a low degree of assurance resulted from the type of exam performed (he didn’t performed all audit procedures) or resulted as a consequence of errors found in audited entities accounting.

### **Global crisis. International reactions**

Accounting and audit profession’ recommendations through international organizations such as IFAC, IASC, FEE as regards possible contributions of related professionals to economical stability, takes into account the very important role of accounting and audit profession.

### **IFAC’ Reactions:**

The International Federation of Accountants (IFAC) is the global organization for the accountancy profession, including 157 members and associates in 122 countries and jurisdictions, and representing approximately 2.5 million accountants in public practice, education, government service, industry, and commerce. The Chamber of Financial Auditors of Romania and (CECCAR), The Body of Expert and Licensed Accountants of Romania are members. IFAC, through its independent standard-setting boards, and in conjunction with the international regulatory community, *sets international auditing and assurance, ethics, education, and public sector accounting standards*, also issues guidance to encourage high-quality performance by professional accountants. “*We believe that the accountancy profession will have an essential role to play in resolving the current crisis and in building a reformed international financial system. Therefore, IFAC would like to support the G20 (Group of Twenty Finance Ministers and Central Bank Governors) in its work in facilitating change throughout the world.*” IFAC offers recommendations, “such as”:

➤ On March 28, 2009 IFAC offers recommendations and proposals for G20 Workgroup:

With the global economy in crisis, the G20 is uniquely situated to provide leadership and vision and *effect change to financial systems at an international level*. IFAC issues a letter in response to the G20’s Declaration from the Summit on Financial Markets and the World Economy issued on November 15, 2008. It is designed to support G20 leaders with recommendations that assist in developing solutions that lead to a more stable financial system. IFAC submitted recommendations for the reform of the global financial system to the G20 Working Groups that met

during the 2009 London Summit. IFAC's views are expressed below:

Table no. 1

**Recommendations and proposals for G20 Workgroups from IFAC:**

No.	<i>Recommendations to Working Group 1</i>	<i>Recommendations to Working Group 3</i>	<i>Recommendations to Working Group 4</i>
	<i>Enhancing sound regulation and strengthening transparency</i>	<i>Reforming the International Monetary Fund (IMF)</i>	<i>The World Bank and other multilateral development banks (MDB)</i>
1.	G20 countries shall adopt International Standards on Auditing ( <b>ISAs</b> ) where they have not already done so, and urge their adoption in nations and jurisdictions. This will support: (a) the G20's goal of strengthening <b>transparency and accountability in the context of the audit of financial information</b> ; and (b) National and jurisdictional regulatory systems in the interpretation and exchange of audited financial information.	We recommend that the G20 require that the IMF's Code of Good Practices on Fiscal Transparency be strengthened through the application of International Public Sector Accounting Standards (IPSASs).	We recommend that the G20 support the World Bank and other MDBs in their efforts to assist countries to improve their financial management capabilities and strengthen the financial reporting infrastructure. This would include facilitating the establishment and strengthening of well-governed national accountancy bodies where they do not exist.
2.	Implementation of the Organization for Economic Cooperation and Development's (OECD) <i>Principles of Corporate Governance</i> as the standard framework for corporate governance	G20 shall support the IMF/World Bank Reports on Observance of Standards and Codes (ROSC) initiative.	G20 support the World Bank/International Monetary Fund (IMF) Reports on Observance of Standards and Codes (ROSC) initiative.
3.	G20 countries should act to ensure that sufficient resources are applied to develop and disseminate <b>implementation guidance for all global standards</b> that they adopt/support, such as <ul style="list-style-type: none"> <li>• ISAs,</li> <li>• the OECD's <b>Principles of Corporate Governance</b>,</li> <li>• the International Financial Reporting Standards (<b>IFRS</b>), and all others of the Financial Stability Forum's (FSF) Compendium of Standards.</li> </ul>		

4.	G20 call for the establishment of an international, principles-based <b>threshold of competencies</b> for senior financial officers in public interest entities, that shall ensure; <ul style="list-style-type: none"> <li>• training in corporate ethics,</li> <li>• knowledge and application of financial reporting standards,</li> <li>• continuing professional development,</li> <li>• familiarity with the national governance codes, and other regulatory rules and procedures</li> </ul>		
5.	Reforms of enterprise risk management systems and senior corporate remuneration schemes		
6.	Implementation of high quality models of governance for all international institutions with mandates to set financial regulation		
7.	G20 countries adopt International Public Sector Accounting Standards (IPSASs) where they have not already done so		
8.	Acknowledge the importance of the small business sector		

*Source:* the table presented above is an extract from the letter in response to the G20's Declaration from the Summit on Financial Markets and the World Economy issued on November 15, 2008, available at [http://web.ifac.org/download/IFAC\\_G20\\_Letter\\_Wkgrp\\_1.pdf](http://web.ifac.org/download/IFAC_G20_Letter_Wkgrp_1.pdf), consulted 04.08.09.

- IFAC convoked the world leaders of accounting profession in order to debate the measure in which accounting professionals can contribute to economical stability reconstruction, in February 2009. The necessity of sustaining the small business sector, in the crisis environment, came out. Also IFAC' Committees as International Auditing and Assurance Standards Board (IAASB) and International Public Sector Accounting Standards Board accelerates the work as regards standards and guides for accountants working in public practice and government, so they can handle the actual economical environment.
- Following the March 2008 publication of the report, Financial Reporting Supply Chain: Current Perspectives and Directions, and in response to recommendations made within it, the IFAC Board established a Business Reporting Project Group, to study progress in the areas of governance, financial reporting, and auditing around the globe. The first step of this follow-up project was a global research study, in which 74 IFAC member bodies from 59 different countries and jurisdictions, including all major economies, participated. The results of the study indicate that in many countries and jurisdictions progress has been made in numerous areas of governance, financial reporting, and auditing, such as new or revised codes and increased convergence of standards.
- IAASB completes "Clarity project" with the launch of 7 final audit standards. As result of these efforts the world-wide auditors will have access to 36 new clarified ISAs and the new International Standard of Quality Control. With this project IAASB issued all ISAs in a form that enhances the level of understanding and interpretation.

**FEE' reactions:**

FEE (Federation of European Accountants) represents 43 professional institutes of accountants and auditors from 32 European countries, including all of the 27 EU Member States. *FEE has issued policy statements on issues related to the financial crisis, sustainability and audit and assurance and believes that a new approach is needed to get to a single set of global standards.* This policy statement sets out the European's professions view that convergence should no longer be a key driver and that the IASB focus should be on joint development of new standards in duly identified key priority areas. "FEE believes, however, that we are now in a period of diminished returns from further convergence due to the rapid increase in complexity, without hardly any additional benefit to investors that arises when seeking to eliminate increasingly smaller differences between IFRS and other standards. The IASB should now change its strategy and *concentrate exclusively on major improvements and simplifications in IFRS over the medium term.* To this end, it should work together with standard setting bodies from around the world, so that all stakeholders can be fully engaged and ensure that the quality of IFRS is not compromised. The number of active projects should be reduced significantly and attention should be focused on those projects that really set the scene for the development of future standards."(FEE, 2009). FEE issued five policy statements on sustainability, the crisis and financial reporting, as there policy statements such as:

→ *I. A policy statement on the crisis: Shaping a Sustainable Economy*

This policy statement examines the sustainability issues in the current financial and economic crisis environment and suggests steps that can be taken to encourage the sustainability in business practice. Organizations need to ensure their financial sustainability and operate responsibly. *Particular attention is paid to the implications of sustainability on financial reporting, corporate governance and assurance.* The specific role of the accountant is also explored.

FEE believes that the current financial crisis illustrates the failure of markets to acknowledge that short term thinking can lead to substantial legacy problems in the long term. *Organizations need to focus on long-term sustainability* of their business and Governments must continue to encourage more sustainable business practices through proper incentives.

→ *II. FEE issued three policy statements on sustainability:*

These policies are oriented to:

1. *Embedding Sustainability into Corporate Governance*

2. *Carbons Emissions Information*

3. *Towards a Sustainable Economy: the Contribution of Assurance: FEE calls upon IFAC to develop a general standard on sustainability assurance. The IAASB needs to extend the coverage of its standards in the sustainability area to reflect the market demands. FEE furthermore calls on regulators to acknowledge that assurance has a role in reinforcing the trust and integrity around sustainability information.* FEE also believes that the involvement of an independent practitioner, in assurance services or in separate consultancy services, can allow an organization to benefit from their external expertise and experience and as such improve the quality of sustainability reports and result in positive changes in the organization itself.

→ *III. The policy statement on financial reporting of FEE (July 2009) includes:*

- FEE believes that the existing model of convergence is no longer sustainable new global principles-based standards are needed
- New standards on major issues, such as financial instruments or pensions, should be developed jointly by the IASB

- FEE supports the call of G20 (April 2009), on the world's accounting standard setters to continue to work towards a single set of high-quality global financial reporting standards.
- FEE believes that the G20 should urge the IASB to use all existing high quality accounting standard setting expertise from around the world, including those within FASB(Financial Accounting Standards Board) and EFRAG(European Financial Reporting Advisory Group), to work together on new global solutions in those areas that really matter to investors.

### **IASC' reactions:**

International Accounting Standards Committee (IASC) Foundation, reacted through, **IASB**, as its standard-setting body established in 2001. IASB published in October 2008 amendments to IFRS 7 "Financial Instruments", with the scope of reducing the differences with US GAAP. The amendments published by IASB have been approved at European Union Level, the (CE) Regulation no. 1004/2008, being issued. Efforts of IASB as regards sustaining accounting professionals under crisis conditions are to be continued. As general opinion in this period of crisis SMEs shall be sustained, and IASB issued on 9 July 2009 an IFRS(International Financial Reporting Standard) designed for use by small and medium-sized entities (SMEs), which are estimated to represent more than 95 per cent of all companies. The standard is a result of a five-year development process with extensive consultation of SMEs worldwide, and under actual crisis environment is more than necessary. After implementing IFRS presented above, "SMEs will (IASB 2009):

- provide improved comparability for users of accounts
- enhance the overall confidence in the accounts of SMEs, and
- reduce the significant costs involved of maintaining standards on a national basis".

➤ In august 6<sup>th</sup> 2009 IASB released proposals on the classification of rights issues, for public comment. The proposals seek to clarify the accounting treatment when rights issues are denominated in a currency other than the functional currency of the issuer. Introducing the exposure draft, Sir David Tweedie, Chairman of the IASB, said: "The IASB continues to give priority to its work related to the global financial crisis..."

### **Conclusions:**

Accounting and audit profession' recommendations through international organizations such as IFAC, IASC, FEE takes into account the important role of accounting professional under crisis conditions.

IFAC offers recommendations to G20 underling the idea that accountancy profession will have an essential role to play in resolving the current crisis and in building a reformed international financial system, recommends the sustainability of small and medium-sized entities, and finishes (through IAASB) « Clarity Project »- 36 clarified ISAs.

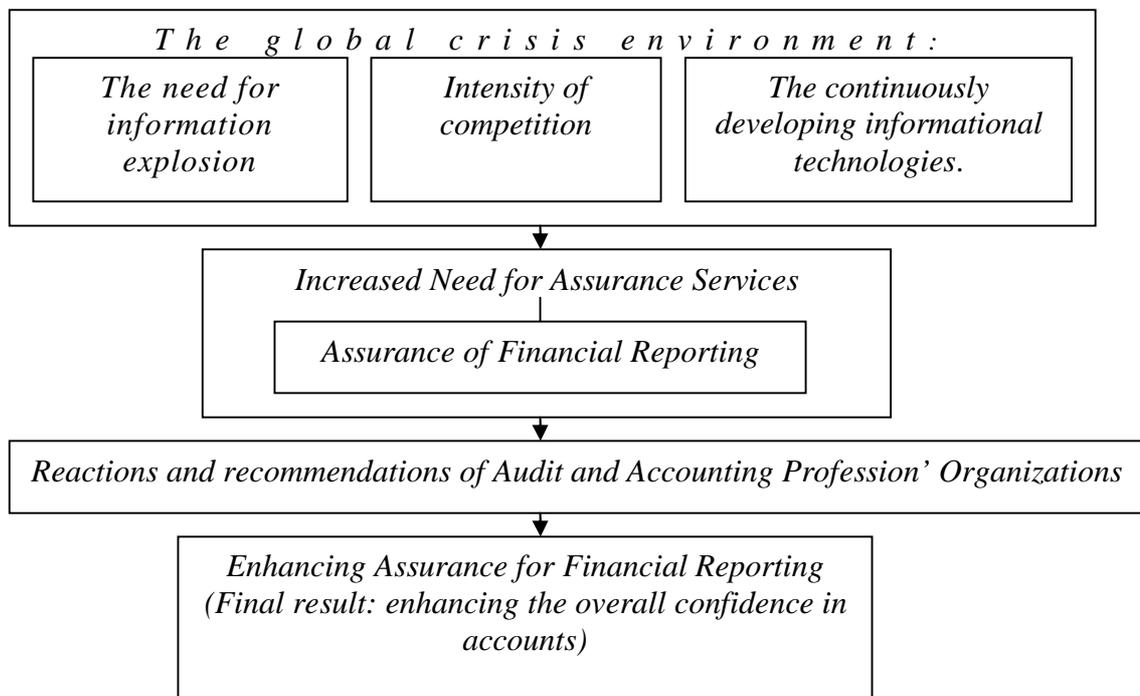
FEE issued five policy statements on sustainability, the crisis and financial reporting, orienting accountancy profession to a single, improved, simplified high quality accounting standards.

IASC through IASB amends the existing accounting standards, in order to sustain the accounting professionals in crisis conditions, elaborates an IFRS designed for use by small and medium-sized entities in July 2009, with the general goal of enhancing the overall confidence in accounts.

The new clarified ISAs are leading to enhancing the quality of assurance services for financial reporting. More than that, an extension of assurance services to offer by an accounting professional is to be expected. FEE recommends the elaboration of new standards on assurance and disclosure of carbon measurement, or specific assurance standards on sustainability information.

The assurance of financial reporting, as conclusion, as concerns the result of evaluation of presentation through financial reporting, resulted after applying a conceptual measurement, recognition, and presentation framework such as Accounting Standards (criteria)- now improved, with high quality and simplified, as result of international reactions of accounting and audit professionals can only lead to an enhanced confidence in financial reporting. The assurance given by an assurance professional will be based now on Improved Global Financial Reporting Standards. Reliable and credible information is needed to take the right strategic and operational decisions and to manage the organization's environmental and social risks. Assurance given by independent assurance providers, especially from qualified accountants, enhances the credibility of information. The involvement of an independent practitioner, in assurance services or in separate consultation services, can allow an organization to benefit from their external expertise and experience and to improve the quality of financial reports resulting positive changes in the organization itself.

The need for assurance is born under factors such as: the need for information' explosion, the intensity of competition, and the continuously developing informational technologies. The actual crisis will only increase the need for assurance of any kind of information and the need of assurance for financial reporting becomes essential.



**Fig. no. 1 - The global financial crisis as incentive for Enhancing Assurance for Financial Reporting**

The global crisis is creating these effects such as improved audit and accounting standards and this will only enhance Assurance for Financial Reporting. The final effect is a better investor' decision based on improved and assured financial reporting.

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