Big Four’s countdown

The beginning of the end?

- Non-audit services monitor: South Korea, Japan and Australia
- UK confidential: Insiders round table
  - Mongolia country survey
  - Power 50: 2015 top influencers
The Big Four's Achilles heel

Jim Peterson, former in-house lawyer and partner at Arthur Andersen, has published a seminal book on the fragility of the surviving Big Four accountancy firms. He shares with Carlos Martin Tornero some pearls of unconventional wisdom found in his book.

When a Financial Times reporter asked William McDonough, outgoing PCAOB chairman, how regulators would respond to another failure among the Big Four, his answer in September 2003 was: “None of us has a clue.”

That quote comes from Jim Peterson’s book, Count Down: The Past, Present and Uncertain Future of the Big Four Accounting Firms, which has recently been published.

Judging by the tone of the book and by Peterson’s views, not just regulators but the whole industry seems to remain clueless.

As we previously reported, ahead of the publication of the book, Peterson is sending out a prophetic warning, and he is someone who has closely watched the accountancy profession for many years.

From 1982, Peterson was a senior member of Arthur Andersen in-house legal group and for 16 years a partner of the Big Five firm.

“I reached retirement age in 2001 just before Andersen’s death spiral. It was very painful, costly and personally damaging; but much less damaging than it would have been had I stayed there,” Peterson tells The Accountant.

As Peterson writes in his book, he left Andersen with a “generously promised package of retirement benefits” which vanished as a result of the collapse.

The message of his book is mainly this: the four surviving firms are just as exposed today as Arthur Andersen was in 2002 to the kind of shock that could make them evaporate.

But there is worse. According to Peterson when Andersen fell apart the system adjusted seamlessly. Every large global company relocated to a new auditor. However a three-firm model wouldn’t be sustainable if one of the surviving Big Four crashes.

A paradigm shift is long overdue. What he calls the Big Audit model is an anachronism that should be replaced with a new type of assurance, in which demand would be driven by the market and not by enforcement agencies or regulators.

The statutory pass-fail audit is doomed to failure, and mandatory rotation and non-audit services restrictions won’t do anything but accelerate the failure of the Big Four, according to Peterson’s thesis.

“The audit report at statutory level is a kind of tick-the-box commodity that it’s there because the world says it has to be there. It doesn’t. If the firms disappear the world wouldn’t stop and securities will continue to trade.”

“The SEC and the FRC would have cardiac arrests for a brief time, but you can’t shut the market. You cannot close the New York Stock Exchange because suddenly public companies can no longer deliver an auditor report,” Peterson says.

When it comes to the scope of services that firms can deliver, Peterson believes any restriction should be abolished. These firms should be allowed to evolve in accordance with their capabilities and talent, he says.

For Peterson, those restrictions create conflicts between audit practices and consulting or advisory practices, representing a major source of internal tensions within firms.

“Firms are trying to build up their non-audit practices as fast as they can, but they are reconstructing the problems that killed Andersen back in the end of the 1990s, when it divorced its consulting practice and became Accenture.”

This area, Peterson points out, carries serious problems. One is the governance challenge of running firms: how to deal with internal competition for leadership, profit sharing, team work and cohesiveness.

“When Andersen Consulting became such a big profitable part of the firm, the challenges of that overcame the ability of Andersen’s management to keep the firm cohesive and together.”

As he says, it didn’t have to happen that way, it was down to bad management. Yet it presented to Andersen’s leadership at that time a challenge they couldn’t handle.

“You had the largest most profitable multiverse professional services in the world, incapable of managing itself. If that’s true and that’s the model then the Big Four, who don’t begin to have such an expertise in managing themselves, how can they possibly hold it together?”

But for Peterson, this internal governance challenge reflects how wrong it is to impose restrictions on non-audit services. “This sets up an automatic tension between one part of the business and the other part about who should get the work of a big company.”

For him this an artificial and counterproductive constrain, he offers an example: “If you are the leader of that practice, and you are told: ‘We want you to grow your advisory business, but by the way you can’t work for 40% of the FTSE100 because the company has already audit engagements,’ your answer is not fit to repeat in a newspaper: those tensions are there.”

The idea of having audit-only firms, suggested by the European Commission in early stages of the EU audit reform, is vehemently rejected by Peterson.

That would dramatically shrink firms who would lose the ability and talent that’s embedded in their advisory practices. And they would become financially much weaker to respond to a litigation or regulatory shock.

He also argues that this would make the profession much less attractive to young people, and the quality of recruiting would also plummet.

“As I would see it, that puts the audit function even further down the path to obsolescence and zero value. And reduces it to an almost tick-the-box mechanistic exercise, for the purpose of compliance with the regulators’ requirements. But it will attract even less attention from the capital markets and users than it gets today, and today is almost none.”

Peterson is also in favour of scrapping independence rules. “That’s an unconventional topic on which people get quite excited,” he says. “As soon as you say, as I do, that independence has basically no value and serves no purpose, then it is as if you were attacking motherhood.”

But to understand Peterson’s views, the premise from which he starts should be taken into account: the crisis of the whole statutory audit model, which “serves almost no useful function now anyway”.

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That’s the model which has created, and never solved, the infamous expectation gap (particularly for investors) about what the role of the auditor is.

The gap only kicks in, Peterson continues, when a huge problem has happened. “Think of Tesco, nobody gave a damn about the audit report up until the company reported irregularities worth millions. Then everybody comes back and says: Jesus! Where were the auditors?”

But the accounting profession is equally responsible for fuelling, or at least maintaining, this gap. Yet the audit leaderships of accounting firms blame investors for it, according to Peterson, by saying that they don’t understand what auditors do.

“The profession has allowed the perception that they will always be there to be the watchdogs of the financial statements. The problem is that it’s beyond their ability to execute. Accounting firms are not that good, that’s not the product they are capable of delivering.”

Peterson continues: “They would persistently screw up, get captured by their clients; they would persistently allow the principles to be pushed too far over the line. Accountants are men and women of expertise, trying to do as good a job as they can. The trouble is that this is not good enough to satisfy the expectations the world has. They’ve allowed that bar to be set so high that they themselves can’t jump over it.”

Financial fragility

The Big Four firms, however, face another worrying existential threat: their own financing as partnerships.

Earlier in the year, EY reached a $10m settlement with the New York State Attorney General’s office over Lehman Brothers case. Just two years ago the firm had paid $99m in damages to former investors of the bank.

That’s still an affordable amount for the Big Four, according to Peterson, but with aggressive litigation or higher regulatory fines could equal a death blow for the firms.

“They basically have such a thin layer of capital. They are not funded by public shareholders; they are sustained by the capital of their individual partners.”

Peterson highlights two key factors to explain the Big Four’s “razor-thin levels of capital”. One is that they run a business model in which the operations are funded predominantly by client revenue.

“The business model is basically pretty easy. They live on their receivables. They have space costs, sometimes they own it but mostly they rent it. They invest in technology, which is pretty short term. And they invest continuously in training and methodology, which again is basically current expense. And then they have payroll.”

The other key factor is the way tax codes of the major countries are organised, whereby firms are taxed on a cash basis.

“So they are obliged to pay taxes on their billings and that incentivises them to distribute their profits immediately out to the partners, keeping as little capital in their firms as they can manage. The treasury functions of the Big Four firms are designed to keep their equity portion of their balance sheets as small as possible.”

As a consequence, if a big shock in the form of litigation comes, the Big Four might not be able to continue operating, pretty much what would have happened to Andersen, had the criminal action that terminated the firm not been pursued.

“People don’t realise that when Andersen fell apart in 2002, the financial cost of buying its way out of Enron, would have killed it all by itself. The popular notion is that the indictment killed Andersen, but in fact, if you look at the numbers, it would have been insolvent.”

Peterson says the financial fragility of the Big Four is a toxic topic that is not confronted in the open, one that he periodically studies in his blog ReBalance.

“I promise you, the management of the firms hate this topic but they cannot keep it buried for ever. I’ve been publishing these numbers for every two years or so. And in fact, off the record, nobody in leadership ever disagrees with me.”

But more worrying for Peterson is that the Big Four are trapped in the system, as having more money in their balance sheets would not solve the issue of their fragility.

“Because they don’t need the money for operational purposes, if they tried to retain extra capital from their partners, it would be just captured money.

And that would create a perverse incentive: if the shareholders’ plaintiff lawyers knew that money exists, it would be like a red flag in front of the bull.”

If there was a solution, that would be to eliminate the possibility that firms could be killed by litigation, Peterson says.

But changing their legal liability to limit it, for example to an amount worked out by multiplying by two or three the fees received, is inexpedient.

“There is no country that would find that politically acceptable. Regulators and politicians look at the amount of money the firms are making and say: Jeez! How can you possibly ask us to put a cap on your exposure?”

Beyond the all doom and gloom, Peterson’s book offers also constructive propositions. One of the three chapters of Count Down explores alternatives to the current statutory assurance model.

“The world will continue to look for assurance on financial information. We already see very significant moves towards alternative forms of reporting and assurance.”

“The world of the capital markets is prepared to tell the sources of assurance, the auditors or somebody else, that they are asking for more valuable information. And they’ll get it because nature abhors a vacuum, evolution will happen.”

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### Big Four’s Family Tree

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**1859:** Frederick Whitney is made a partner in 1859

**1861:** William Cooper joins with his three brothers

**1865:** Samuel Price goes into partnership with William Hopkins Holyland and Edwin Waterhouse

**1867:** William Peat establishes his practice in London

**1877:** Thomson McLintock opens an office in Glasgow

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### Timeline

- **1886:** Charles Haskins begins his practice in New York
- **1887:** James Marwick opens in Glasgow
- **1893:** The firm of Samuel Price, William Hopkins Holyland and Edwin Waterhouse named as Price, Waterhouse & Co.
- **1907:** William Hopkins Holyland retires in 1971
- **1891:** Takeover firm in London, William Barclay Peat & Co.
- **1894:** Frederick Whitney as a partner in Harding & Pullein, together with his sons, rename the company to Whitney Smith & Whitney.
- **1895:** Arthur Young & Co. opens an office in New York
- **1895:** Charles Haskins and with Elijah Watt Sells forms Haskins & Sells
- **1895-96:** James Marwick opens in New York
- **1897:** James Marwick partners with Roger Mitchell
- **1898:** Robert H. Montgomery, William M. Lybrand, Adam A. Ross Jr. and his brother T. Edward Ross founds their firm in Philadelphia
- **1906:** Arthur Andersen joined by his brother Stanley
- **1911:** James Marwick merges with William Barclay Peat ( appointment)
- **1913:** Arthur Andersen and Clarence Delaney forms their partnership in Chicago
- **1917:** Piet Klynveld opens his firm in Amsterdam and merges with Krayenhof
- **1918:** Arthur Andersen and Clarence Delaney becomes Arthur Andersen & Co
- **1924:** Whimsey Smith & Whitney and Klynveld, Krayenhof & Co.
- **1925:** Peat Marwick is formed as merger of William Barclay Peat and Marwick Mitchell

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**Sources:**

- Alvin & Theodore Ernst found Ernst & Ernst in London in 1904
- James Marwick joined by his brother Stanley
- James Marwick merges with William Barclay Peat (* appointment)
- Arthur Andersen and Clarence Delaney forms their partnership in Chicago
- Piet Klynveld opens his firm in Amsterdam and merges with Krayenhof
- Arthur Andersen and Clarence Delaney becomes Arthur Andersen & Co
- Whimsey Smith & Whitney and Klynveld, Krayenhof & Co

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**Notes:**


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**Image:**

- A structured family tree diagram showing the lineage of the Big Four accounting firms from 1849 to 1877.

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**Text:**

- Details on the key events and milestones in the history of the Big Four accounting firms.

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**Footer:**

- December/January 2015-2016
### BIG FOUR’S FAMILY TREE

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Research by Joanne Chin based on publicly available sources, including: Count down: The Post, Present And Uncertain Future of The Big Four Accounting Firms; ICAEW; Baltimore Sun; Management Today; Harvard Business School Press; The New York Times.

December/January 2015-2016
Power 50: editorial picks

As Timetric Accountancy Power 50 votes seem to have been hijacked by marketing and PR departments, the editorial team put their heads together to come up with a list of people and organisations who in the last year have contributed in one way or another to the world of accounting.

Alex Malley

As chief executive of CPA Australia, Malley leads a global professional body which puts Aussie finance professionals on the map. Together with Chartered Accountants Australia and New Zealand, the two bodies will take over the baton of Rome’s World Congress of Accountants and host the next Olympic Games of Accountancy. The world of accountancy will notice the force that will come from the Down Under accountants.

But Malley is on our list for other reasons, not just for being at the helm of a professional body’s executive team. He has a proven track record of engaging with students and has been responsible for recruiting new blood and talent for the accountancy profession.

This ability to inspire young people comes from someone who never was a teacher’s pet. His book, The Naked CEO starts with a facsimile letter from the headmaster of the all-boys school he attended, where the young Malley was suspended for a couple of weeks. The offence: he skipped school, took his father’s car and drove with some mates to undertake evidence-based research about the claims of one of them, who said he had a girlfriend. Malley’s disruptive career as CEO started with that ride in a bright orange two-door coupe. And his involvement with the bright young things has continued since then.

Antoine Deltour

The so-called LuxLeaks created a financial and political earthquake in late 2014, of which the aftershocks are still today being felt.

A junior accountant at PwC’s practice in Luxembourg opened a can of worms, when he came across a stack of online files documenting how multinationals used the country to reduce their tax bill thanks to sweetheart deals reached with the then Junker-led government.

According to Deltour’s account, he was searching for training documents in a shared drive when he discovered the files. In order to spark public debate in tax avoidance he decided to blow the whistle and share the LuxLeaks with a French journalist.

However, according to his version, he gave instructions that the names of the clients and the auditor shouldn’t be disclosed.

Deltour faces now several charges which might carry jail time. That’s an irony, particularly for someone who has stood up to defend the public interest, a value the accountancy profession has arrogated for itself.

Deltour’s commitment to ethics is exemplary and accountants in all jurisdictions should be inspired by the courageous actions of this young professional.

In the UK, at least, his whistle-blowing inspired the Parliament. In February the Public Accounts Committee (PAC) select committee launched an inquiry on the role of large accountancy firms in tax avoidance.

The conclusion was clear for the then PAC chair, Margaret Hodge: “We believe that PwC’s activities represent nothing short of the promotion of tax avoidance on an industrial scale. Contrary to its denials, the tax arrangements PwC promotes, based on artificially diverting profits to Luxembourg through intra-company loans, bear all the characteristics of a mass-marketed tax avoidance scheme.”

Similarly, the European Parliament awarded Deltour its European Citizens’ Prize in June. He was also nominated for the 2015 Sakharov Prize for Freedom of Thought, awarded by the same institution.

However, a more vocal support from the accountancy profession is missing.

Bheem Ramruttan, Vickson Ncube

Vickson Ncube and Bheem Ramruttan, respectively CEO of the Pan-African Federation of Accountants (PAFA) and the Mauritius Institute of Professional Accountants (MIPA), have faced many challenges in the build-up to organising the 2015 African Congress of Accountants (ACOA15). And there’s little doubt that without the two men’s leadership, the event could have been an embarrassment or even might not have happened. When the Ebola outbreak started in the second half of 2014, MIPA and PAFA decided to put the event on hold. As the epidemic receded, they resumed their work, but a few months before the starting date only a handful of delegates had registered. Moreover a few weeks before the start of the event, the organisation of the congress was stained by allegations of bad practices reported in the national media. Mauritian Ministry of Financial Services staff were quoted accusing MIPA’s board of violating the institute’s regulations. Notably the Ministry staff reported that some subcontracts for the organisation of ACOA15 were awarded without quorums, as required by the institute’s governance rules. Another violation of the institute’s rules reported by national media was that MIPA chairman at the time was running the institute from Australia. But despite these challenges, and through Ncube and Ramruttan’s dedication, ACOA15 wheel of fortune finally turned and in the second week of May, 850 delegates from across the continent gathered in Mauritius to tackle the pressing issues facing the accountancy profession in Africa under the theme “Africa Rising”. ACOA15 was a resounding success, with a three-day jam-packed programme of panel discussions which didn’t shy away from placing accountants at the centre of issues such as corruption and abusive tax planning which hamper the continent’s economic development. But ACOA15 wasn’t all shame and blame; the message sent out to delegates was one of empowerment, African accountants can and should make a difference in building their countries’ future.
Jeroen Dijsselbloem, Future Accountancy Profession Working Group, Dutch profession

This nomination recognises the effort of the Dutch profession under the influence of the Dutch parliament, and in particular of the Finance Minister, to address the culture at firms in an effort to foster audit quality and re-establish the trust of the public in the auditor.

In early 2014, following a series of audit failures at the largest firms in the Netherlands, and a heated parliamentary debate, Dutch Minister of Finance Jeroen Dijsselbloem urged the profession to come up with a series of proposals for improvement by the 25 September 2014.

Consequently the Dutch institute (Nederlandse Beroeporganisatie van Accountants – NBA) took the initiative to create the Future Accountancy Profession Working Group to answer the minister’s call. The group was composed of: Arjan Breugar from PwC Netherlands, Diana Clement from Eversheds (an Alliott Group member firm), Nout van Es from EY, Theo Jongeneel from Deloitte, Marie-Pauline Lauram from Mazars, Pieter-Paul Saason of BDO and Caspar Segers of KPMG.

The group came up with 53 proposals to improve the culture at the Dutch audit firms. Those are currently being implemented by the firms.

In the autumn of 2015, Dijsselbloem, speaking to a European audience of accountants said that politicians and regulators had taken the first step for the profession to regain the trust of the public, but that auditors themselves have to take the second step.

“The situation is, I’m afraid, quite serious; if your seal of approval is questioned, the added value of your work itself is at stake,” he said. “And with every new incident, it becomes more and more difficult for the public to determine which charts, figures and results can be trusted.” There’s nothing harder to win back than trust, he continued. “The banks know this. Insurance companies know this. And now audit firms know it too.”

Dijsselbloem said audit firms’ approval should not give reasons for doubt but should be a byword for reliability and precision otherwise audit firms lose their raison d’etre.

“New and stricter rules are necessary. And yet, rules alone, however, are not enough. Auditors also have to change their corporate culture. This is no easy task. Clear rules are necessary. You need a framework. The EU has done that. The Netherlands has done that also. But the second step is up to you. You need to take the necessary steps yourself,” he said.

Changing a culture is difficult, Dijsselbloem admitted. “Unfortunately, we are in a hurry. The Romans were familiar with this challenge. Martial, the Roman author once wrote: ‘Divide the work and thus shorten it. So this is what we must do. With the EU and the member states, the professional organisations and the audit firms. So people will gain again trust the watchmen.’”

The High Level Panel on IFFs from Africa

In 2011 the UN Economic Commission for Africa was directed to establish a High Level Panel on Illicit Financial Flows (IFFs) out of Africa. The panel was formally established in February 2012 and prepared it findings three years later at the African Union summit of January 2015. The findings were consigned in a report entitled “Track it! Stop it! Get it!” The Tax Justice Network said of the report: “Now, we’re biased for all sorts of reasons [...] but this is an historic moment – and probably the most important report yet produced on this issue.”

The report besides being a gripping read is a mine of information, and establishes in the first few pages that Africa losses more than $50bn annually in IFFs. Commenting on this figure at the African Congress of Accountants in May, Pan-African Federation of Accountants CEO Vickyson Neube said: “The ones who know what happens in every transaction will be the auditors, whether they say it or not.”

The report doesn’t shy away from putting accountants and accounting firms right at the centre of the issue. For example, it highlights their role as issuers to businesses: “The business sector also has relative strengths in interpreting laws and rules and being able to avoid compliance with them because of the legal, accounting and finance assistance that it can draw upon.”

The report also highlight the fact that large companies (including accounting firms) operating in Africa engage in IFFs through abusive transfer pricing, trade misinvoicing, misinvoicing of services and intangibles and use of unequal contracts. They exploit the lack of information and capacity limitations of government agencies to engage in base erosion and profit-shifting activities.

Nevertheless the report remains positive as it also puts the accountancy professional as part of the solution and calls for further capacity building for the accountancy profession, in order to have better accounting talent to tackle the issue.

Hilde Blomme

Hilde Blomme is deputy chief executive of the Federation of European Accountants, a position she has held since 2011. In her role at FEE, she has focused on supporting and advising FEE governing bodies on policy and technical matters, co-developing strategies that have a focus on regulatory matters, and developing FEE’s workforce.

Blomme has an established record in promoting public debate on accounting matters and promoting discussion around the many papers which FEE publishes, including The Future of Audit and Assurance and The Future of Corporate Reporting.

Blomme is an advocate of going beyond traditional techniques to encompass non-financial information to financial statements.

She has long considered the stakeholder’s requirements in a comprehensive and original picture of a company’s health, including layering reporting requirements to achieve this goal.

Blomme has wealth of knowledge in the European regulatory environment, a fact she made clear during an eye-catching presentation at International Accounting Bulletin and sister publication The Accountant’s annual industry forum in October.
Ian Ball, Paul Kazarian and IPSAS Board

Ball and Kazarian are in this list for their work in promoting transparent and sound public finance management, a necessity which was epitomised by the Greek economic and political crisis.

An incredible series of events which shook the foundations of the European Union and brought to the forefront the question of what this union is all about. At the centre of the commotion was Greece’s debt, and bail out negotiations. Under the Maastricht Treaty’s rules the Greek debt is 175-180% of GDP. But under IPSAS, Greece’s gross debt would be 68% of GDP and its net debt 18% – lower than Germany’s.

Leading the debate on transparency and sound public finance management in the Greek case was former investment banker Paul Kazarian who through the campaign “The Most Important Reform” informed the debate on public sector accounting. In eccentric fashion to make his point, Kazarian bought a full page in the FT to publish an ad calling for a professional with sound accounting skills to take on the job as Greek finance minister.

Despite its importance the Greek case is only a drop in the ocean, and the importance of sound financial management in public institutions is a pressing necessity. Amazingly Germany, Europe’s economic powerhouse, is still on cash based accounting for its federal accounts. And the USA show no sign of moving towards an accrual model. Other nations, like New Zealand have become the beacon of accrual accounting in public finance.

Ian Ball, chairman at CIPFA, and a past CEO of IFAC, was involved famously in helping New Zealand’s transformation. He continued this year through his work at CIPFA to argue in favour of IPSAS implementation in countries across the globe.

IIRC, GRI

This year ended with a new global deal on cutting carbon emissions beyond 2020 reached by world leaders at the United Nations Climate Change Conference in Paris. But critics have already voiced scepticism and it’s clear climate change and environmental sustainability awareness is picking up in the public opinion, media and political arena.

Depending on who you ask, some will say businesses are following suit, others will argue they are slow in doing so. Nevertheless, initiatives, frameworks and standards for sustainability reporting by businesses are proliferating. So much so that it seems they are competing with each other for relevance and in this competition the message can get lost. The Global Reporting Initiative has been one of the first such initiatives to develop sustainability reporting standards. In 2015, GRI launched the G4 exam in 70 countries enabling individuals to gain accreditation on their ability to use GRI’s fourth generation of guidelines. GRI also published an important report looking at materiality and reconciling the preparers’ and investors’ view.

Taking the lead as the umbrella organisation overseeing all the sustainable initiatives, while reconciling it with financial metrics is the International Integrated Reporting Council (IIRC), which this year revised a competence matrix, predominantly targetted at preparers, and aiming at setting out the outcomes required of individuals to be competent in IFRS.

Jacob Soll, Jane Gleeson-White, Jim Peterson

Three accounting-related books have marked 2015. Those three books have contributed or will contribute in 2016 to the debate around important areas of accounting: public finance accounting, corporate reporting and market structure.

First, Jacob Soll’s The Reckoning: Financial Accountability and the Making and Breaking of Nations. While it was published in 2014, Soll’s writing has been quoted throughout 2015 at industry events and regularly popped up in conversations about public finance accounting. The Reckoning, an historical journey through the last 700 years of financial reporting, demonstrates that “accounting is at the basis of building businesses, states, and empires [...] however when practised poorly or neglected, accounting has contributed to cycles of destruction, as we saw all too clearly in the 2008 financial crisis”.

Second, published last year in Australia but reaching international shores this year, Jane Gleeson-White’s Six Capitals, or Can Accountants Save the Planet – Rethinking Capitalism for the Twenty-First Century, explores the limits of accounting in an increasingly global and complex world. At the core of the book is the concept of value and how by focusing solely on financial values, corporate reporting ignores a whole range of other sources of value. Gleeson-White calls for a revolution of capitalism whereby all six forms of capital are accounted for and where the accountants would play the surprising role of the planet’s saviour.

Finally, Jim Peterson’s book, Count Down: The Past, Present and Uncertain Future of the Big Four Accounting Firms came out at the end of this year. Peterson, who was a senior in-house lawyer at Arthur Andersen, argues that the four surviving firms are just as exposed today as Arthur Andersen was in 2002 to the kind of shock that could make them susceptible. From the firms’ endurance in the face of litigation risks to the dichotomy of audit firms in a race to build up legal and consulting practices, Peterson’s book aims to spur candid debate on unconventional topics. His book starts with a quote from the first head of the PCAOB. When asked what the regulators would do if another of the large accounting firms went into a death spiral, his answer was more or less: “None of us has a clue what we would do.” Peterson adds: “Since then no regulator has ever come forward with anything more substantial than that.”
International Valuation Standards Council (IVSC)

Since the emergence of the 2008 financial crisis, the 34-year-old International Valuation Standards Council (IVSC) has been steadily redefining its purpose, vision and structure, but 2015 could be regarded as a milestone in this process of change. So much so that after a year of internal restructuring and reshuffle, the IVSC has become a different organisation, according to chairman Sir David Tweedie. Ahead of its annual general meeting, the IVSC commissioned an independent assessment conducted by an eight-strong review group which set up recommendations for the future strategy and good governance of the standard-setter. As a result, after the AGM, the prevailing consensus was to enhance the IVSC professional standards board. The end in mind is to establish the basis of a regulated qualified profession, encompassing: entry requirements; exams that candidates should pass; work experience they should undertake before gaining the qualification; continued professional development requirements; and ethics and discipline. The state of play, according to IVSC and Tweedie in particular, is that the lack of a single set of global standards to value financial instruments could make Basel capital requirements useless, disguise the real value of complex financial products and eventually reignite another financial crisis.

Jeff Thompson, Jim Knafo, Mark Koziel

Jeff Thompson, chief executive at IMA, Jim Knafo, director international affairs at AICPA, and Mark Koziel, vice-president firm services and global alliances at AICPA, have been instrumental in turning their organisation towards a more international focus, and as such pushing the borders of the US profession to the international scene. While IMA started sooner, both IMA and AICPA have signed partnership agreement with UK-based global professional bodies in recent years. As a result of this international strategy, IMA’s membership has grown significantly especially abroad. IMA reported growth to 77,956 members in the year to 30 August 2015. Of those, 34,677 are outside the USA. The AICPA on the other hand doesn’t disclose membership figures despite its CEO being chairman of the board of the IIROC. Using the IIROC terminology it’s therefore not possible to evaluate the value creation of AICPA’s internationalisation. Yet AICPA’s intention of being more global is palpable.

MOSAIC

MOSAIC was signed in 2011 and sets the basis for improving cooperation and collaboration between IFAC, international donors, and the international development community. While MOSAIC started off by publishing the PAO Global Development Report, it has since then picked up speed. It has received a £4.9m ($7.3m) grant from the UK Department for International Development for PAO capacity-building programs in at least 10 countries over seven years. This year, MOSAIC launched its website, which has become a leading source about the development of the profession globally.

Lakshman Watawala

Lakshman Watawala is president of the Institute of Certified Management Accountants of Sri Lanka (ICMA), and has worked relentlessly over the last decades to build the Sri Lankan accountancy profession in all accounting aspects; from chartered accountants to accounting technicians and management accountants.

Watawala is a former president of the Institute of Chartered Accountants of Sri Lanka and a founding president of the Association of Accounting Technicians of Sri Lanka, the other two national accountancy bodies. He was also involved in the creation of the management accounting body formed in 1999, at a time when the management accounting profession in Sri Lanka was dominated by the UK-based Chartered Institute of Management Accountants.

Now Watawala is working on the international recognition of the national CMA qualification, and as such has approached the US Institute of Management Accountants for a possible partnership.
Richard Murphy

Jeremy Corbyn made the headlines in the UK this summer competing for the leadership of the Labour Party, and possibly never before has a leadership election in the UK attracted such extensive media coverage. Corbyn was given the largest mandate ever obtained by a Labour Party leader. However, the UK media at large, and Labour’s own Parliamentary Party haven’t forgiven him for his landslide victory.

Partly behind Corbyn’s success was Richard Murphy, a British chartered accountant, economist, tax justice campaigner and author, whose ideas in the field of economics were the basis for what someone coined as Corbynomics. One of its hallmarks is People’s Quantitative Easing, which challenged conventional wisdom in monetary policy.

Corbynomics has been received equally with bitter criticism and genuine enthusiasm. A majority of financial media outlets and commentators have dismissed Corbynomics as a populist loony-left delusion. Yet a group of 40 economists, among them a former advisor to the Bank of England, published a letter in which they described Corbynomics as actually mainstream economics.

Murphy, meanwhile, continues producing ideas, on his blog taxresearch.org.uk. He’s also published a book The Joy of Tax and since September he has been professor of practice in international political economy at City University London.

Nathalie Berger

Everyone involved in the EU’s audit reform has heard of Natalie Berger. As former head of the European Commission’s audit and credit rating agencies unit, she had to deal with and spearhead a necessary reform of the audit market.

It took four years to pass enabling legislation, notably introducing mandatory rotation and restrictions in the scope of services audit firms can provide.

One can only take a wild guess about the heavy lobbying from all fronts this reform must have been exposed to. But it’s easy to lose perspective and forget what the spirit of this reform was.

Two main objectives were outlined in the European Commission’s 2010 green paper which kick-started the reform. First, to improve audit quality and auditors’ professional independence in light of the then recent financial crisis, a meltdown which saw financial institutions collapse despite their auditor’s clean bill of health. And second, to expand competition between audit firms, of which the Big Four enjoy a de facto oligopoly at the highest end of the market.

It should not be forgotten that those goals, including the means proposed, were supported by a big coalition of investors, who as shareholders, by the way, are those who pay the firms’ handsome audit fees.

The implementation of the reform should be ready by June 2016 across all member states. Only Spain and Portugal have delivered on that implementation, which involves deciding on the options the EU law left open.

Some say this would create a patchy audit market with implications for other markets worldwide. If that’s the case, blame the lobbyists who are still possibly whispering into the ear of member states. Berger is now head of the EC’s insurance and pensions unit.

Organization for the Harmonization of Business Law in Africa (OHADA)

This year OHADA celebrated its 22nd anniversary. Founded in October 1993, to increase legal certainty and facilitate foreign investment across West and Central Africa through the harmonisation of business laws, OHADA has become an important driver of reforms in the region.

Since its inception, OHADA has grown from the 14 founding members to 18 members today and it has adopted 10 uniform acts. OHADA’s space covers a market of 225 million people, nearly a quarter of Africa’s population and a GDP of around $275bn.

The uniform acts adopted so far tackle issues such as commercial law, security interests, organising simplified recovery procedures and enforcement measures, arbitration, and bankruptcy proceedings. OHADA hasn’t fallen short of tackling accounting and reporting. In 2001 it adopted the Uniform Act on Organising and Harmonising Accounting Systems of Undertakings and Operating in the Member States. These efforts have been recognised this year in the World Bank’s Doing Business 2016: Measuring Regulatory Quality and Efficiency report, where it highlighted that OHADA members have been continuously improving the business environment.

In accounting, the next stage for OHADA is to push for adoption and implementation of IFRS. A study is currently being undertaken and, by spring 2016, the 2001 Act on harmonised accounting systems is expected to be revised.

While some critics might say OHADA is moving slowly, an aspect of its operation needs to be highlighted: to be adopted, all reforms must be unanimously accepted by all 18 members. OHADA might move slowly, but it’s surely moving to an union of members that seem more glued together than the EU might ever dream of being.

Nordic Federation of Public Accountants

Earlier this year the Nordic Federation of Public Accountants (NRF) released for consultation the Standard for Audits of Smaller Entities (SASE), which aims at strengthening the value proposition of the audit profession to SME clients. A year and a half in the making, SASE was released earlier this summer by the NRF, which comprises the institutes of public accountants in Sweden, Denmark, Finland, Iceland and Norway. With audit thresholds rising all over the world, audit and assurance services seemed to be less valuable for SMEs. NRF’s standard was developed to support the belief that auditing is, and will remain, a valuable service for small entities. SASE has less detailed requirements than the ISAs and puts greater emphasis on the use of the auditor’s professional judgement, according to NRF. The consultation closed in October and the final version should be published in early 2016. It’s expected that SASE will act as a benchmark for audits for small companies and could be rolled out to other jurisdictions outside the Nordic countries.
Olivia Kirtley

If IFAC was a boat and Olivia Kirtley its captain it could be said that she can steer it through any waters and any weather. Kirtley became president of IFAC at the end of 2014, after serving two years as deputy president. She’s the first accountant in business to assume the position. Hours after her appointment was announced at the end of the World Congress of Accountants in Rome last year, Kirtley sat down with this publication for an interview and said one of the main focuses of her presidency would be to build relationships— and time as shown she’s good at it. Event after event, this publication has seen her in the past year sailing through diverse crowds, speaking to everyone and anyone, even to us—and without PR interferences or pre-arranged questions. In the first year of her presidency, Kirtley’s been busy travelling the four corners of the globe, advocating strong accountancy professionalism bodies and professionals.

At the PAFAs annual general meeting in Mauritius last May she acted as a scrutineer to oversee the election of PAFAs new board. “Don’t underestimate the voice of PAFAs,” she told PAFAs members and exhorted African professionals to be more active in IFAC’s committees and bodies. But Kirtley’s inclusion efforts are not all rosy and she still faces some challenges in the coming year, including from her own side of the profession: the accountants in business. At a round table discussion earlier this year discussing the current status of the management accounting profession, concerns were raised about the extent IFAC could be devoting more resources to this constituency of the profession. In particular, one participant said that only about 5% of the federation’s budget is devoted to professional accountants in business.

Patrick de Cambourg, Philippe Arraou

In March, Patrick de Cambourg and Philippe Arraou were respectively appointed and elected president of the French accounting standards-setter (Autorité des normes comptables/ANC) and the French Institute of Chartered Accountants (CSOEC). With this shift in leadership, both organisations took a turn towards the international scene. The ANC’s previous leadership had been critical of IFRS, but only a few weeks into the job De Cambourg visited the IASB in London and at the same time met with this publication. During the encounter De Cambourg said: “We live in a multicultural world, and France can contribute with its singularity. I’m in favour of dialogue. The ANC is designed for that. Similarly, in a highly internationalised economy, we have to be present on the international stage, which means we have to contribute to the debate.”

Similarly at the CSOEC the election of Arraou fuelled the expectation that the institute’s international profile would rise. Prior to the election, a CSOEC staff told this publication that international issues are Arraou’s main concern and favourite subject. This was quickly confirmed by Arraou himself, who commenting on his election said: “My action will be firmly focused on the international dimension of the profession.”

Results started to show as CSOEC’s 2015 congress hosted 6,000 delegates including 500 foreigners from 51 countries and 34 presidents from other countries’ national bodies.

In 2016, for the first time, CSOEC’s annual congress will take place outside of France, in Brussels.

Patricia Arriagada Villouta

After a 40-year career in Chile’s Auditor General office, Patricia Arriagada Villouta took the helm of the institution as acting comptroller general of the republic. While her name might not be well known on the international scene, Arriagada has been the vice-chair of the United Nations Independent Audit Advisory Committee (IAAC) since last year, which is the highest position a Chilean as ever occupied at the UN. She’s also the first Latin American to sit on the IAAC. Arriagada has led consulting collaborations with Supreme Audit Institution programmes such as the Integrated Control Audits System developed by the Comptroller of Chile. She also serves as the executive director of the Organization of Latin American and Caribbean Supreme Audit Institutions, for which Chile currently provides the Executive Secretariat.

Paul Gillis

Paul Gillis is a professor of accounting at the Guanghua School of Management, Peking University in Beijing, China and co-director of its IMBA programme. He retired from PwC in 2004 after a 28-year career in the US, Singapore and China. Since then Gillis has been everything but kind to the Big Four. His regular blogs look into the latest development in China’s market giving a rare insight and perspective into the country and the Big Four practices. Far from just commenting on the news, Gillis’s insights are often news itself.
Stephen Haddrill, James Doty, Bernard Agulhas

Being a national regulator is no easy task, but being a national regulator and serving as a beacon on the international scene makes it even more challenging. The UK Financial Reporting Council and the Public Company Accounting Oversight Board from the US are among the most scrutinised regulators in the world. Their task is daunting as many of their initiatives are often seen as threats to the activity of the regulated population, namely the accounting firms. Moreover, regulators need to deal with the diversity of their regulated population. Lobbying and interest from the Big Four being different from those of the mid-tier and the sole practitioners. Under attack on all fronts, the heads of the regulatory bodies might be prone to becoming the target of nasty politics. This seems to be the case in the US where James Doty is said to be facing a campaign to be ousted out of his role. In the UK, Stephen Haddrill says he hasn’t received such pressure. Nevertheless, the PCAOB and the UK FRC under Doty and Haddrill have raised the debate around serious issues such as the extended auditor report and audit firm rotation, debates which have already started to trickle down in other jurisdiction keen to follow suit. For instance, Haddrill visited South Africa earlier this year to help its counterpart, the Independent Regulatory Board for Auditors (IRBA) in its effort to strengthen its activities. Under Bernard Agulhas’s leadership, IRBA has travelled a great distance in a short period of time. The South African regulator is a member of the International Forum of Independent Audit Regulators; it has banned practitioners from serving on its board; it’s looking at a number of project to enhance audit quality in Africa, such as rotation; and it’s already acting as a regulatory benchmark for other African regulators. Next year IRBA will undergo its greatest revolution to date when it is expected it will become the sole regulator of the entire accountancy profession, based on... the UK FRC model.

Brazil’s national accounts tribunal (TCU)

For the first time since it was founded in the 1930s, the Tribunal de Contas da União (TCU) has rejected Brazil’s federal government’s accounts. The ruling concerns the accounts for 2014, an election year in Brazil, when Dilma Rousseff was re-elected as president on the back of a campaign stressing the good health of the Brazilian economy. After winning the election, she launched austerity measures in a bid to balance the public accounts. In October 2015, the TCU rejected the accounts identifying R$106bn ($27bn) in expenses not properly accounted for. The ruling plunged Brazil into a political crisis as it opened the door for the opposition to call for an impeachment process against the president. As this magazine goes to print, political moves are still at play on whether Rousseff will be impeached. But out of the political turmoil, issues facing the president have rippled down to political adversaries in and outside her own party. For example, the speaker of the lower house Eduardo Cunha was revealed to have several undeclared Swiss bank accounts and is allegedly linked to the Petrobras scandal. The TCU ruling might not have made much contribution to the accountancy profession, and might not even sort Brazil endemic corruption issues in the short term, but it demonstrate the need for clear and transparent public finance accounts for nations to thrive.

The UK profession

The CEOs of five of the more global UK accountancy professional bodies deserve to be mentioned in this list. Yet it should not be forgotten that the CEOs of ACCA, ICAEW, ICAS, CIMA and CIPEA are at the service of their respective councils, which decide on the strategy of the organisation.

The executive function of Helen Brand, Michael Izza, Anton Colella, Charles Tilley and Rob Whiteman derives from their members, as much as a prime minister’s mandate comes from the members of the parliament who were elected by the people.

In the case of those UK bodies, their mandate is huge. Their influence abroad continues to be indisputable and is even more visible than their US peers. Not in vain the two main US professional bodies, AICPA and IMA, have forged alliances with some UK counterparts, CIMA and ACCA respectively.

The UK professional bodies’ influence continues to grow in emerging accountant-hungry economies.

Their growth is pretty much based on international demand for their top-class qualifications and all have the aspiration to consolidate, if not expand, their global reach.

Other UK accountancy bodies to watch are the Association of Accounting Technicians, the Association of International Accountants and the Institute of Financial Accountants. The three of them are full members of IFAC.

With seven IFAC-recognised bodies, no other country in the world enjoys such freedom of choice and diversity. This should be celebrated, while the party goes on.
NOTICE IS HEREBY GIVEN, that the PARTNERSHIP lately existing between myself and Mr. James William Thomas, as Public Auditors and Accountants, has been DISSOLVED as from the 17th August, 1874, and that all debts due by the late firm will be paid and all debts due to the late firm will be received by me alone, and my receipt alone will be a discharge.

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To be SOLD, SIX WELL BUILT HOUSES at King's Cross, all let to first-class tenants, and producing £120 per annum. Messrs. HARVEY & DAVIDS, 126, Bishopsgate Street (Cornhill, E.C.)

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