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## IFAC delivers international yardstick for financial reporting say CPAs and CAs

6 August 2003

As Australia enters the 2003 reporting season, investors can take confidence from the findings of a report issued by the International Federation of Accountants (IFAC) that has confirmed the credibility of Australia's financial reporting framework.

The report confirmed that 'the market works most effectively when each of the participants assumes its full role' and identified a wide range of participants including analysts, credit-rating agencies, legal advisers, investment banks, company management, independent auditors and boards of directors as well as investors as sharing some of the responsibility for the ongoing credibility of financial reporting.

Written by an independent taskforce commissioned by IFAC, the report includes recommendations for strengthening corporate governance, improving audit effectiveness and raising the standard of regulation of issuers. The independent taskforce included individuals with backgrounds in commercial banking, international economics, academia and law, as well as accounting and auditing, from six countries: Australia, Canada, France, Japan, the United Kingdom and the United States

The report *Rebuilding Confidence in Financial Reporting – An international perspective* presents an international view on the challenges facing the accountancy profession and those involved in regulating a profession that has such a significant involvement in the capital markets.

According to Professor Ian Ramsay, one of six international members appointed to the IFAC taskforce, the report proves that in an increasingly global business environment, no national financial reporting structure is immune from international developments.

"Investors compare the credibility of national frameworks and are alert to positive steps to improve investor protection as well as negative developments such as corporate collapses. Australia's framework compares very favourably," said Professor Ramsay.

According to CPA Australia CEO Mr Greg Larsen, many of the report's recommendations are existing features of Australia's financial reporting framework and are testament to the leadership of Australian business and the professional accounting bodies. Mr Larsen also welcomed the report's recognition of a wider range of contributors to the credibility of financial reporting.

"CPA Australia has members in just about all areas of the financial reporting framework, from financial accountants to auditors and credit analysts. We are very pleased to see the IFAC report recognises that each one of those roles is critical to the public interest," said Mr Larsen.

ICAA CEO Mr Stephen Harrison said that ongoing reform including the forthcoming CLERP 9 – legislation (which will deal with the independence of auditors, accounting standards, continuous disclosure, analysts' independence, and information provided to shareholders), the Corporate Governance Council's Best Practice Guidelines and the professions own efforts to review professional standards and monitoring of member adherence were all examples of ongoing continuous improvement.

"We recognise that a sound financial reporting framework gives confidence to local and international investors and supports Australia's ongoing economic success. The profession has been working to ensure Australia is continually setting the highest professional standards and this report provides an international yardstick which we can use to review our efforts and consider areas for further reform," said Mr Harrison.

Some of the specific recommendations of the report include:

- Effective corporate ethics codes need to be in place and actively monitored; such codes should be supported by training.
- Codes of conduct need to be put in place for other participants in the financial reporting process – such as investment analysts and lawyers – and their compliance should be monitored.
- Incentives to misstate financial information need to be reduced and companies must refrain from forecasting profits with an unrealistic level of precision.
- Audit effectiveness needs to be raised, primarily through greater attention to audit quality control processes.

The full report and complete list of recommendations can be accessed online at [www.ifac.org/credibility](http://www.ifac.org/credibility)

#### Media Enquiries

Belinda Wood  
Love Pty Ltd  
(02) 9362 8533  
0416 010 977

Download the [IFAC Report - Rebuilding Public Confidence in Financial Reporting](#) (.pdf)

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