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Organising a Worldwide Accountancy Profession with the help of a Website: IFAC.ORG

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Organising a Worldwide Accountancy Profession with the help of a Website: IFAC.ORG

Paper for submission for IPA Conference in Cardiff, 2006.

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ABSTRACT

This paper is concerned with analysing the growing role of the International Federation of Accountants (IFAC) in governing the world of auditing. Whereas the setting of standards for auditing has previously been the task of national authorities, that responsibility has now been passed to a large degree to IFAC, as the meta-organisational body for professional associations of accountants around the world with headquarters in New York and a well-developed, active website, IFAC.ORG.

This major change in the locus of authority has occurred rapidly, and here we analyse how, during the last decade, traditional professional authority in standard setting at the national level has been reconfigured at a global level. The global governance of professional accountants (and especially auditors) is emerging through the close interaction of three overlapping groupings or networks, namely: IFAC, the big 4 audit firms and international regulators. The Big 4 and international regulators now have their own committees in IFAC itself, with the latter exercising oversight over IFAC's standard setting procedures from within, in a process that we describe as "embedded oversight".

Legitimising 'private sphere' standard setting in the public sphere crucially involves the use of concepts of 'public interest' and 'transparency'. IFAC's activities are justified or ordained as being in the public interest while transparent standard setting processes seek to demonstrate and reinforce this commitment. In recent years, the role of IFAC's website has become increasingly significant in such processes and commitments to public interest and, in focusing on its usage, this paper asks how should we regard what could be classified as an 'internet powered' form of democracy?

IFAC.ORG: Organising the world of auditing with the help of a website

INTRODUCTION

“Welcome to the International Federation of Accountants: Leading the development of the global profession”

In the age of a global information society, information concerning the economic state of corporations and financial institutions is of crucial importance. In their role as financial ‘technologists’ accountants and auditors are seemingly the experts behind the economic truth of markets. Without their unceasing work on producing and verifying ‘the figures’ the ‘truth’ about the economic state of entities would not be known and ‘the market’ could not function efficiently. Paul Volcker, a former chairman of the US Federal Reserve, described auditors as acting as the ‘guardians of truth in markets’ (2002).

In this paper we are concerned with examining the rise of the International Federation of Accountants (IFAC) as a global authority for auditing, a development that is closely connected with attempts to manage the world economy in a period of rapid economic globalisation. In terms of international accounting and auditing the global vision is that companies, especially multinational listed companies, will prepare their financial reports using the International Financial Reporting Standards (IFRS) produced by the International Accounting Standards Board (IASB)¹. These financial reports will then be audited in accordance with International Standards on Auditing (ISAs) [set by IFAC’s International Accounting and Assurance Standards Board (IAASB)] by professional accountants who live up to IFAC’s Code of Ethics. This should result in the financial results of companies being comparable the world over – and a ‘level playing field’ created for global capital for the good of everyone – this is the dream².

IFAC is an organisation that has become far more prominent during the last decade, with its rise paralleling the recent rapid economic and political globalisation. We find the rise of IFAC as a global authority in auditing interesting from a global governance perspective for four distinct reasons:

First, IFAC is a non-state, private organisation making “regulation beyond the state” (Held & McGrew, 2002), and thus represents an example of a form of authority that is becoming more common with increasing globalisation. Despite the important role that the auditors of global multinational corporations appear to have in ensuring ‘truth in markets’, auditing has not become a function of any international governmental organisation. There is no “World Financial Authority” as was imagined possible (but did not materialise) in the wake of the financial crisis in Asia in the latter part of the 1990s. Instead, the IASB and IFAC, together with US regulators of accounting and

¹ The IASB is an independent non-governmental organisation that sets standards for accounting. It was formed in 2001, as a replacement for the International Accounting Standards Committee (IASC) formed in 1973.

² Currently there are two sets of ‘global’ standard setters in accounting and auditing, the first being the international standard setters the IASB and IAASB, the second being the US standard setters the Financial Accounting Standards Board (FASB), and the Public Company Accounting Oversight Board (PCAOB). The US standard setters makes rules that apply to all companies listed on US Stock Exchanges, which includes those that are not resident in the US. There are ongoing discussions on convergence between these standards (see Giles et al, 2004; Koski-Grafer, 2005).

auditing, have assumed positions whereby they are able to create or significantly shape global governance in the financial reporting area.

Second, and related to this, the last decade has seen acceleration in the numbers and value of global financial transactions and associated concerns over the stability and significance of the global economy (see Knight, 2005). This has meant that the regulation of global finance has come to rank as a top priority of governance in an emergent global polity, and this is generating a growing shift towards a new form of governance involving complex networks of state, supranational, subnational, and private sector actors, in which political authority is both multilayered and dispersed (Scholte, 2002; Held & McGrew, 2002). IFAC is a contributor to such processes through its regulatory role: a standard setter whose authority has been confirmed by the ongoing adoption of its auditing standards by the EU (European Commission, 2004) and in a host of other countries. This has occurred with support from important international regulators, in particular the World Bank. Studying IFAC can give some insight into this important developing area of global governance.

Thirdly, studying IFAC offers the opportunity to consider the way in which political authority is being reconfigured in network society. At first glance what IFAC does is set technical standards in a realm seemingly quite distant from issues concerning the reconfiguration of political authority in network society (Hoff et al, 2006). However, what needs to be considered is that a central part of the contemporary programme of neo-liberalism has involved the transfer of some parts of the control traditionally exercised by parliaments and legislatures to the market (Holmes & Markus, 2005; Rose, 1999). Economic globalisation opens up not only the private sector but also a 'marketised' public sector to global economic forces, a process that has extended the reach of accounting and auditing within the nation state (Power, 1997). When this occurs the traditional sphere of politics and government is left with less authority to exercise, for much of this authority has been given to the market. Markets, however, would not exist without a whole host of persons, organisations and activities creating and maintaining them. Strategic powers seemingly relinquished by politicians and conferred on the 'market' seem to be recaptured in various ways by, amongst others, central bankers (Holmes & Markus, 2005), stock market regulators and accountants and auditors (Power, 1997), the latter being involved in the verification of 'economic truth'³ in markets. In this context IFAC can be seen as an organisation making standards for those making and maintaining 'the market' to which political authority has to an extent been reconfigured.

Last but not least, IFAC appears to rely heavily on the use of internet affordances (Hutchby, 2001a, 2001b) both in order to carry out its everyday business of setting standards and to present itself as an authoritative organisation acting in the 'public interest' in the realm of global finance. For visitors from all over the globe who visit the website, IFAC is precisely 'IFAC.ORG'. The question arises as to whether or not it could have gained the position it has today without these technologies, and how they shape what IFAC is.

Thus in the context of the framework of developing global governance our task here will be to analyse the nature of IFAC's global regulatory authority and the techniques and technologies serving to maintain and develop such authority. We will give particular attention to IFAC's use of modern information technology, including the internet and its website at IFAC.ORG and the

³ We write 'economic truth' in inverted commas as in practice this economic truth about a business entity in the age of 'fair value' mark-to-market accounting often rests on estimates subject to the "brittle illusion of accounting exactitude, which is liable to collapse during times of economic strain" (*The Economist*, April 24th 2003).

implications of IFAC's regulatory activity for the issue of democracy in what can appear to be a rather closed world of global financial governance.

IFAC'S ORGANISATIONAL STRUCTURE AND THE MAKING OF AUDITING STANDARDS

IFAC describes itself as "the global organization for the accountancy profession". IFAC's governing Council which has ultimate control of its activities, is made up of one representative from every member body and meets once a year - as at January 2006 there were 163 member bodies from 120 countries (IFAC, 2006a). The Council elect a Board; this is comprised of 21 members and the President. The Board is responsible for setting policy and overseeing IFAC's operations. Overall direction and administration is provided by the IFAC Secretariat headquartered in New York, which comprises a staff of 35 accounting professionals from various parts of the world (IFAC, 2005a, 2006b). In terms of members of member bodies, IFAC represents 2.5 million accountants (IFAC, 2006a), but its authority as a meta-organisation only goes as far as the national professional bodies, with the latter being directly responsible for their members.

IFAC's formal mission is stated as being:

"To serve the public interest, IFAC will continue to strengthen the worldwide accountancy profession and contribute to the development of strong international economies by establishing and promoting adherence to high-quality professional standards, furthering the international convergence of such standards and speaking out on public interest issues where the profession's expertise is most relevant" (IFAC, 2006a).

Rather than describing IFAC's structure in great detail, we present below an 'executive summary' of the organisation (place Table 1 about here) and a diagram showing IFAC's organisational structure

(Place Figure 1 and Table 1 about here).

IFAC has several interesting organisational features and commitments. Even though it is a recognised international standard setter it still carries the role of representing the profession internationally 'speaking out on public interest issues where the profession's expertise is most relevant'. Most significantly, in 2000, the Financial Stability Forum (FSF) - formed by the G7 countries in the wake of the Asian Crisis in order to fend off any reoccurrence - listed IFAC's auditing standards as one of the 12 key standards for financial stability (Financial Stability Forum, 2006). Through this, and other support from the World Bank, the International Organisation of Securities Commissions (IOSCO) and the European Commission, IFAC has succeeded in obtaining an important place in the networks of what has been called the "new international financial architecture" (Thirkell-White, 2004; Germain, 2004)⁴ or an emergent world economic society (see Slaughter, 2004).

In the wake of the collapse, in 2002, of Andersen, one of the then big 5 audit firms, a 'monitoring group' of international regulators was formed in 2003 to discuss with IFAC how to proceed. This

⁴ For more detail on this subject, see Loft *et al* (2006) and Humphrey *et al* (2006).

included representatives from the European Commission, World Bank, IOSCO, BCBS and IAIS⁵, and it was decided that there should be a Public Interest Oversight Board (PIOB) in IFAC. It took until 2005 to finalise the membership of the PIOB – which comprises a number of (retired) senior regulators – and the PIOB now has its own office in Madrid in the same building as IOSCO⁶. The new structure of IFAC was described by the first chairman of the PIOB as “a novelty for world-level public oversight” (Thomadakis, 2005), although given that the oversight function is exercised within IFAC itself, not from the outside, it may be best described as a system of “embedded oversight”.

The large audit firms, in particular the Big 4⁷, play a very important role in IFAC. Historically individual audit firms were represented only through member bodies, and not in their own right. Following the Asian crisis of 1997, and partially in response to the criticism that they received over their role in this crisis⁸, the then, Big 5⁹ firms felt that they needed a “coordinating body to lead the effort and interact with outside partners” and duly set up a joint “Global Steering Committee” (GSC) in 1999 (Morris, 2001: 14). Apparently whilst the Big 5 had difficulty being in the same room together to start with, at the World Economic Forum in Davos in January 2000 they managed to resolve their problems and agreed to work together in various ways and to support IFAC (Turley, 2001) – with one of the three main elements in their programme being to strengthen IFAC as the global audit standard setter and self-regulatory body for the international profession (Morris, 2001: 14). The GSC supported the formation of the Forum of Firms and the Transnational Auditors Committee (TAC), which institutionalised the big firms as having a role to play in IFAC that was distinct from the member bodies. The GSC (or a successor organisation) appears to have continued to meet, although information is sparse it appears that it is clear that they organised a “Global Public Policy Symposium” in Brussels in 2004 and in London in 2005. These symposia brought together the international profession, international regulators and the international standard setters. The 2005 symposium was not a public event, but from the details which have emerged it seems that many of the most important persons in the regulatory field of accounting and auditing were present, including not only the leaders of the Big 4, but also the EU Commissioner Charlie McCreevy, the chair of IFAC’s PIOB, the Chair of IOSCO’s technical committee and senior American regulators.

The large audit firms support IFAC in various ways, including significant financial contributions (in addition to the funds they provide through their staff being members of IFAC-affiliated professional bodies). At a global network firms’ conference in London in February 2006, Graham Ward, the current President of IFAC, noted that the relationship between IFAC and the firms was close:

“The firms are part of our Regulatory Liaison Group, as I have mentioned; we meet regularly with the firms; the Transnational Auditors Committee and the Forum of Firms provide a formal relationship with international accounting firms; the firms are represented on IFAC’s Planning and Finance Committee; nominees of the Transnational Auditors Committee serve on IFAC standard-setting bodies, providing immensely valuable practical

⁵ The US Securities and Exchange Commission (SEC) was not directly represented, but the SEC has a strong presence in all these international regulatory bodies, apart from the EC, of course. The BCBS is the Basel Committee on Banking Supervision and the IAIS is the International Association of Insurance Supervisors.

⁶ The European Commission has two observers on the PIOB. More indirectly the international regulators are also involved through IFAC’s Monitoring Group, now chaired by Roel Campos a US Securities and Exchange Commissioner.

⁷ Deloitte, KPMG, PricewaterhouseCoopers and Ernst & Young

⁸ For more detail on this, see Humphrey *et al*, 2006; Loft *et al*, 2006)

⁹ The current Big 4 audit firms, plus Andersen which collapsed in 2002 in the aftermath of the Enron crisis.

expertise; in addition, many of the individual members of our member bodies are partners in, or employed by, the firms which, facilitate their participation in IFAC's standard setting and other activities"(Ward, 2006: 11).

IFAC is thus being constituted through two overlapping transnational network organisations: first, the traditional IFAC structure wherein it serves as a meta-organisation of, and for, national professional associations and secondly, a body which gives explicit consideration to the interests of the largest firms in the profession.

The new organisational and governance arrangements at IFAC are such that the auditing profession has managed to continue to make its own international auditing standards under a system of public oversight - with the larger firms particularly funding the cost of such systems changes through direct monetary contributions to IFAC and, indirectly, through the payment of airfares, hotels and lost time of members of their firms participating in meetings of the Forum of Firms and the TAC. The familiar, traditional, nation state/profession relationship in accountancy, where the state lets the profession regulate itself in a kind of 'regulative bargain' (Cooper et al, 1988) has been duly reconfigured at the global level, through the governance responsibilities of a group of international regulators acting for the public interest. This was the 'bargain' made by IFAC in order to be able to retain its standard setting role. As Graham Ward, President of IFAC puts it, the PIOB:

"... works to ensure that there is sufficient public interest input into IFAC standard-setting processes. Public oversight of these processes is crucial as it assists in building credibility and confidence in international standards and auditing, which then contributes to confidence in the financial information produced by companies; in the examinations carried out by their auditors; and ultimately, in the capital markets that rely on such information" (2006: 9-10).

Thus IFAC's authority in global financial governance is justified through the legitimacy it gets from the presence of the PIOB, which in turn adds legitimacy to information in markets.

IFAC AND THE USE OF INTERNET 'AFFORDANCES':

IFAC's website and other new information technologies serve to give IFAC many new possibilities in terms of governing auditors globally through both its standard setting and other activities. When the leader of an IFAC task force in charge of revising a particular standard is asked about how he intends to move forward with a particular draft standard, and he responds: "*we can deal with this electronically*"¹⁰, it is clear that the pattern of his conduct in this case is being shaped by the technological artefact, the internet. He will be using emails to send round a new draft standard and get comments from other members of his task force and possibly also IFAC's own intranet.

IFAC's Annual Report for 2004 makes it clear that electronic communication is clearly important:

"IFAC information activities are designed to support IFAC's overall strategy and are targeted to IFAC member bodies and various external groups, including the media, regulators, standard setters, international financial institutions and other stakeholders. IFAC

¹⁰ Personal observation by Anne Loft at IFAC Education committee meeting, Dusseldorf, 2005.

achieves this through print and electronic communications, the IFAC website and intranets, and media relations” (2005a: 29).

The affordances offered by the website IFAC.ORG appear to be an important factor supporting and furthering IFAC’s ‘project’ of transnational governance. IFAC has described the website as playing an important role in terms of enabling participation in the standard setting activity, by those both inside and outside of the profession. Focusing first on those directly involved in standard setting, there are 700 persons using IFAC’s two intranet services. One links IFAC’s permanent staff with all the experts on its leadership and activity committees, the other is for the member bodies, the professional associations of accountants, to exchange information with each other and with IFAC. We do not have any detailed information concerning the use of these intranets. The focus here will be on IFAC’s use of the website to present itself to the world outside of the profession. In a booklet entitled “Facts about IFAC” available on the website it is noted that:

IFAC’s website offers the following:

- Access to all IFAC international standards
- Guidance for professional accountants in business
- Board and Committee meeting highlights and background papers
- IFAC news releases
- Recent speeches by IFAC’s leadership
- Membership information
- Member body list and contact information” (IFAC, 2006c: 2).

The website makes available information that amounts to a fairly comprehensive account of IFAC’s activities. In 2004 approximately 525,000 visitors viewed 2.8 million pages of the site, individuals downloaded around 200,000 publications¹¹, and 5 electronic newsletters were issued (IFAC, 2005a: 29). In the same year 3,900 print publications were ordered, which is clearly a rather small number in proportion to the approximately 200,000 which were downloaded (ibid.).

According to IFAC, its ‘public website’ and intranets are continually being expanded and enhanced¹², and in 2004 an online Media Centre was launched. This presents more systematically than before key speeches and press releases, biographies of IFAC’s leadership, and fact sheets on IFAC, its boards and committees. The home pages for IFAC’s Public Interest Activity Committees (PIAC) were also expanded to include meeting highlights, background papers and to enable potential observers of meetings to register online to observe PIAC meetings.

IFAC views the website as playing an important role in delivering the transparency required by its public interest commitments. Its operations and committee programmes and processes are described and standards and exposure drafts made available. The Public Interest Activity Committees (PIACs), which are the IAASB, the International Ethics Standards Board for Accountants (IESBA) and the International Accounting Education Standards Board (IAESB)¹³, place their agendas, minutes (very brief), and background papers (voluminous) on the website. Exposure drafts are

¹¹ ISAs were made available free from the website from 1st January 2003.

¹² Having followed IFAC’s development of its website since 1997, we can verify that this is a fair statement.

¹³ The Public Sector Committee is not defined as a PIAC, but the same transparency processes are followed. The IESBA used to be called the Ethics Committee, and IAESB used to be called the Education Committee.

available, and so are finished standards and discussion papers as well as, for IAASB, audio recordings.

The website also plays an important role in terms of participation in IFAC's standard setting, for as draft pronouncements are exposed "for public review" (IFAC, 2003: 9). Thus any individual or organisation can read and comment on the exposure draft of standards. In the case of the PIACs, comments received are posted on the IFAC website" (ibid.). It is notable that comments on exposure drafts by those both inside and outside of the profession are normally sent by email and loaded up by IFAC staff. To give an example, on a recent proposed International Education Standard for Professional Accountants entitled "Competence Requirements for Audit Professionals" on which comments were due by August 15th, 2005 comments were made by: IFAC member bodies (19), firms (4), regulators (2) and others (11) (IFAC, 2006e, their analysis). The 'others' category included 6 individuals, seemingly both academics and professionals. Besides sending comments on drafts of standards, the public can also, through the website, nominate members for the PIAC's, and it is also possible to register to observe the meetings of these committees subject to agreeing to the 'observer guidelines', which include not using a tape recorder¹⁴.

So far what has been dealt with here is the use of the internet in all the processes around standard setting. Recently though the internet has become used for a subtly different new purpose, which is essentially that to build a global profession. In the latest strategy plan (2005b) there are frequent mentions of the "worldwide accountancy profession", and it seems that IFAC is no longer 'just' a meta-organisation for professional associations of accountants, but a governance actor itself which is attempting to exercise control over the member bodies. This is happening most clearly through the development of "Statements of Membership Obligations" (SMOs). These:

"establish requirements for members and associates to promote, incorporate, and assist in implementing international standards issued by IFAC and the International Accounting Standards Board (IASB). The SMOs also establish requirements for quality assurance and investigation and discipline activities" (IFAC, 2006d)

The actual realisation of this control is occurring primarily through the interactive use of the affordances offered by the internet, where each member body is required to answer questionnaires concerning the existing situation regarding the regulation of professional accountants in their country and the extent to which they live up to the membership obligations. The result of these questionnaires is loaded up on the internet for anyone to see – which induces self-control as well as enabling control by IFAC of its member associations.

In summary, it is evident that there are different dimensions to IFAC's use of the Internet in its global regulatory project. These dimensions include the capacity that the Internet gives to IFAC in terms of helping it establish and promote the notion of a global accounting profession and also in terms of defining (and, ultimately establishing) itself as the dominant/lead body in the field of global auditing regulation and governance.

¹⁴ Note thought that IFAC does not provide for individuals to load their comments on exposure drafts directly to the website, there is no public forum on the website for discussion of standards, interpretation of them and so on.

The Internet lends itself to IFAC's agenda and ambitions precisely because of its global reach - it appears to reach instantaneously everywhere on the 'known' globe and makes other forms of communication seem totally archaic. It is hard to imagine a global organisation existing today without a smart homepage. It is also so much easier with the Internet to establish an organisation as a global player. In short, the Internet creates a virtual world and enables a 'global' organisation to 'compress' space – such that a document outlining the organisation's policy can be placed on the Internet at a particular point in space and time and become instantaneously 'global' at that moment. Urry (1998, 2003) identifies one of the characteristics of the process of globalisation as being that it involves 'scapes and flows': people, information, ideas and images 'flow' along various 'scapes' organised through networks within and across different societies. The main global scapes are systems of transportation of people (e.g. aeroplanes), systems for the transportation of objects (e.g. the postal system), and systems for the transportation of information (e.g. fibre-optic cables). Scapes and flows create new inequalities of access, and "scapes pass through some areas while connecting others along information and transportation rich 'tunnels' which in effect compress the distances of time and space between those places" (Urry, 1998: 3). Drawing on Urry's terminology, information from IFAC's headquarters in New York flows primarily through cables and telephone lines (scapes) around the world. IFAC's documents are made available anytime to anyone with internet access.

Clearly IFAC's development as a global body and the global reach of the web seem to have an elective affinity with each other. The principal question such an affinity poses is whether this represents a new form of trans-national organisation and regulation in a new virtual world? Or is it just the continuation of previous ambitions and efforts but in a new media form?

MEDIA AND THE CONSTRUCTION OF GLOBAL AUTHORITY IN AUDITING

How global authority is being constructed by IFAC and other actors, is a question which can be discussed at several different levels. We have given some consideration to the establishment of formal institutions and alliances involving the profession, international regulators and the big audit firms at the global level. In this respect, IFAC's relationship with the regulatory community has been to some extent formalised within IFAC by the IFAC Regulatory Liaison Group (which comprises senior members of IFAC and includes senior representatives of the Forum of Firms), the IFAC Monitoring Group (representing international regulatory bodies in the global financial arena) and the PIOB. These bodies have close links to the Financial Stability Forum (FSF) and, according to Graham Ward, "this very integrated approach, supported by both regulators and the international accounting firms, is what gives each of us strength in carrying out our responsibilities and produces high quality outcomes" (Ward, 2006: 10-11).

Another way of looking at the construction of global authority is to concentrate on the basic, practical mechanisms serving to coordinate processes of global auditing regulation, particularly given that participants are scattered around the world, across a variety of institutions. As there is no world governmental body coordinating such activity, across what kinds of media are key policies and opinions being discussed and expressed and how does any consensus emerge? How are actions legitimated and how transparent are decision-making processes? The problem in writing about such affordances is that the internet and other modern communications technologies have become so

ubiquitous in modern society, that it is difficult to tease out what role they play in these processes, but we will try here to sketch out some ideas.

Our personal observations at conferences and meetings and our extensive Internet searches of individuals, organisations and policy initiatives suggest that the following public media are significant dimensions in making visible the activities and outputs of the global governance arena in auditing:

(1) Papers and reports produced by official bodies, including international governmental bodies (e.g. the World Bank), professional accountant organisations (e.g. IFAC) or market regulators (such as IOSCO and the SEC). These lay down ‘official stances’ and frame debates (see e.g. the report IFAC made on the problems of implementing IFRSs and ISAs (IFAC, 2004). By being uploaded to the Internet, these documents become available to a wide audience.

(2) Speeches by IFAC and related key officials or committee members (whether made in public or in private – and then made public) are capable of being placed in a significantly wider public realm by being loaded up on the IFAC public websites, enabling a fairly small elite of persons to ‘broadcast’ their views to a wider domain of fellow experts/ regulators who may not have been present at the meeting. Spreading ‘the message’ in this way has been extensively used recently by IFAC, with speeches by the current President, Graham Ward (e.g. 2006), being readily available – an approach also adopted by the US SEC in relation to speeches by its senior officials. The elite in this world ‘fence’ with each other on a public stage by having their speeches loaded up on their organisation’s home pages. The ‘broadcasting’ role served by new (Internet) media outlets is particularly interesting in that in the past the content of such keynote speeches was often mediated through journalists. Now the Internet has made this debate/posturing more directly available not only to major participants, but also potentially to a global public – so long as they pay sufficient attention to new website postings and have a reasonable degree of expertise at surfing the internet.

(3) Traditional media, in particular a handful of top newspapers such as the *Financial Times*, still have a role to play in engendering and facilitating debate in the accounting arena (a process seemingly enhanced by these newspapers being available electronically)¹⁵.

(4) New media, including free Internet newsletters (again often dominating accompanying traditional printed broadsheets), for example ACCOUNTANCYAGE.COM and website news/information facilities, such as Deloitte’s IASPLUS.COM.

While such public media lay out messages and strategies, the next question is how such activity all gets coordinated? Besides emails, conference calls and telephones, our observations suggest that the crucial links are drawn together at private meetings and at private conversations at public meetings – in a sense the ‘watering-holes’ of the profession. These include a variety of conferences, from those of the international profession itself (e.g. Hong Kong in 2002), special elite ‘Round Table’ events, to private conferences by invitation only (e.g. the Institute of Chartered Accountants in England and Wales anniversary conference in Brussels in March 2005 and the Global Public Policy

¹⁵ The same applies with top professional journals (e.g. the ICAEW’s journal *Accountancy* and *The Economist*). There are a few journalists who write about global developments in accounting and auditing, e.g. Robert Bruce. Our subscription to Google news alerts for IFAC also indicates that other newspapers mostly re-present what was in one of the few top financial newspapers.

Symposium in London in October 2005) and, at the margins, academic events (for example, the annual European Accounting Association Congress)¹⁶.

Thus, while the new media, and in particular the Internet, plays an important role in the process of creating global governance of auditing, at the highest level of global governance, personal contacts and meetings are of great importance when it comes to making decisions. Charlie McCreevy, the EU Commissioner dealing with accounting and auditing, declared at a recent Christmas lunch speech:

“We have an excellent financial markets relationship with the United States. No tension. Simple matter of fact meetings. Got a regulatory problem? Then let’s sit down and work it through. That’s our approach. Informal. Without the bureaucratic baggage. Without the “*after you Cecil*”¹⁷ language. Straight talking to resolve problems. And it works. (McCreevy, 2005).

One of the developments McCreevy is clearly referring to is the development of the new 8th Company Law Directive on Statutory Audit that will be issued in 2006 (see European Commission, 2004). Certain details of this, such as the specific requirements concerning the rotation of auditors and audit committees have been hammered out not only between US regulators and the European Commission, but also with the international profession. The ‘Global Public Policy Symposia’ mentioned above were one of the venues for this discussion according to our contacts in the profession.

This said; such informal arrangements must be framed within a formal framework. This can be seen in the press release from the Commission presenting the agreement reached in Council over the 8th Directive: “[t]he Directive provides a basis for effective and balanced co-operation between regulators in the EU and with regulators in third countries, such as the US Public Company Accounting Oversight Board (PCAOB)” (European Commission, 2005a). Some evidence of the complex network of actors involved in the development of this Directive, and who will also be involved in future can be seen in the “Summary of the Second Meeting of the Expert Group on Statutory Audit” held in July 2005 (European Commission, 2005b). This seems to confirm the growing shift which we discussed earlier towards a new form of governance involving complex networks of state, suprastate, and private sector actors, in which political authority is both multilayered and dispersed (Scholte, 2002; Held & McGrew, 2002). At the same time we want to add to this characterisation, that it is a world where the affordances of internet play a major role in shaping the way in which governance is made. Thus we conclude that the global governance of auditors is still being made, as Hopwood described over a decade ago, in a rather “small and closed” world (1994: 251). However, things have changed, for the affordances of internet have led to a massive explosion of the availability of information in the name of transparency and legitimacy. However, this information is characterized by complexity – it is so diversely spread, so complex and it is so difficult to follow developments that even those researching and working in the area have difficulties. Thus we have been able to write this paper, but it has required an enormous amount of time and effort to try to chart the developments – and perhaps this in itself is a defining characteristic of the global governance arrangements in the financial arena.

¹⁶ Our evidence for this is mostly through private conversations, but see for instance, Street & Needles (2002), and Deloitte (2005).

¹⁷ “After you Claude, no after you Cecil” is a British catch-phrase that indicates polite or formal ‘turn-taking’.

CONCLUDING DISCUSSION: A WORLDWIDE PROFESSION ON THE WORLDWIDE WEB – WHAT IMPLICATIONS FOR DEMOCRACY?

Auditors now work in a truly global marketplace. You might have thought that it would be the big audit firms which are the motivators behind this. But it is not. It is another paradox. The regulators are the people providing the real drivers. Both IFRS and Sarbanes-Oxley have done more to create a world view than any amount of vision statements from the global chiefs of the Big Four audit firms (Bruce, 2005).

Governance of the world's auditors has become a serious matter in a world threatened by financial instability. What is emerging out of the 'regulatory renaissance' of the last few years is a complex, multi-layered governance of auditors, those institutions regulating practice potentially including a range of national, regional and global bodies. As an international standard setter for auditing, and an organisation that, through its membership obligations, is attempting to make its member associations push its standards into practice, IFAC is centrally involved in the process of globally governing auditors and auditing.

Overall, this paper has sought to argue that IFAC's rise to authority in the global governance of auditing and auditors is linked to the fact that: (1) its position of representing not just the accounting profession generally, but also the world's largest and most powerful accountancy firms; (2) the heads of the world's leading (G7) nations have allowed the profession to retain its private authority in this standard setting arena: financial reporting has not been subsumed under an international governmental organisation; (3) as a result of this success of 'private authority', IFAC has obtained a crucial place in the networks of what has been called the 'new international financial architecture'; and (4) the nature of the authority it has now, and the way in which it is exercised, is inseparably connected to its utilisation of the possibilities afforded by information technology developments, particularly with respect to the affordances of the Internet.

IFAC has been classified as a highly transparent non-governmental body in the financial services arena (see Delonis, 2004) and we have concluded elsewhere (see Loft et al, 2006) that IFAC is significantly more transparent than a number of other regulatory bodies operating in today's so-called global financial architecture. In this preceding analysis of IFAC's changing governance and accountability structures, however, we also emphasised that it is important to recognise that the global public has limited possibilities of participating in a significant way in IFAC's standard setting processes (see Loft et al, 2006: 29-30). The cost of attending IFAC meetings as an observer, the technical, complex nature of IFAC standards and associated debates, the evident ontological privileging of IFAC's developing global standards over established national standards and the preferential access afforded to global accounting firms and security market regulators were all seen as impacting on the capabilities of the 'public' to affect IFAC's developing regulatory agenda.

The interdependencies and the multi-layered nature of governance arrangements between national, regional and global bodies do make it difficult to establish where democratic accountability in its traditional sense lies (see Scholte, 2004a, 2004b). Thus, while IFAC's website could be said to enable transparency and aids a global public in knowing what IFAC is doing and contributing to the

process, it could be seen in another way, as having a more immediate and direct impact in terms of helping a small elite of 35 persons in an office in New York and a larger number of expert ‘volunteers’ (drawn to a significant degree from the Big 4 firms) to regulate and govern 2.5 million professional accountants the world over? These latter thoughts are reinforced somewhat when it is recognised that global regulation in auditing is being constructed not just through new organisational networks and new media mechanisms – but also through a reliance on a range of more traditional communication and decision making vehicles (including public speeches, private meetings etc). As such, while the Internet appears to be particularly powerful as a technology through which the creation and endorsement of global auditing standards can be constructed, there remain residing doubts over how publicly visible are key decision making processes and the formation of global allegiances and alliances. This has been notable in relation to the formation of IFAC’s Public Interest Oversight Board (PIOB), where it is difficult to determine who is driving the agenda – specifically, whether it is IFAC pushing global regulatory bodies to assume a more active commitment to the public interest or the reverse (for more discussion, see Humphrey et al, 2006; Loft et al, 2006).

A major difficulty in assessing or critiquing processes of technocratic network governance (Woods, 2002) is the recommendation of alternative developments or criteria for membership of key standard setting committees. If international financial reporting standards are complex¹⁸, and to audit them is also a complex and difficult matter, it is difficult to deny that a high level of technical expertise is required to set or develop such standards. Not only are the standards complex, but ordinary words become associated with specific meanings that can only be understood in a particular context¹⁹. Beyond this, standards are developed and disseminated through constructed networks of interests and regulatory bodies – networks so complicated that even those persons closely associated with them find them hard to follow.

Such complexity and a proliferation of regulatory bodies in the global governance arena, obviously raises questions as to the additional net-benefit to the standard setting process provided by replacing technical accounting or auditing experts with non-expert representatives drawn from other civil society bodies or non-governmental organisations? What is the right expert-representativeness trade-off? These are inherently tough questions to answer and are always going to be resolved in ways that are influenced by the context within which such bodies operate and the knowledge of and familiarity with, their actions and changing powers of influence. Accordingly, it could be argued that an important contribution to be made by papers such as this one is to give a more visible profile to what is happening in the field of global financial governance and the developing nature of IFAC’ activities and structures in particular – to contribute to what Keohane (2002) has suggested, is a developing public debating space on the nature of global governance:

“Global governance, combined with modern communications technologies (including technologies for linguistic translations), can generate a public space in which some people communicate with one another about public policy without regard to distance. Criticism, heard and responded to in a public space, can help generate accountability” (2002: 339).

¹⁸ See *The Economist*’s much cited article "True and Fair is not Hard and Fast" April 26, 2003, where it is discussed how “the reality that most of the numbers in accounts are not facts but estimates. People are not good at estimating things and no amount of new accounting rules and auditing will change the fact that estimates are fragile and easy to manipulate”.

¹⁹ See for example the debate about what a ‘network firm’ is in professional accountancy, or ‘reasonable assurance’ in auditing.

A key focal point for future analysis is the extent to which IFAC's commitments to transparency and a developing 'internet democracy' associated with its standard setting processes can serve to mitigate the questions that are increasingly being raised in civil society regarding the legitimacy of such global institutions (see Moravcsik, 2004; Slaughter, 2004; Woods, 2002). This is a potentially fascinating arena. At one level, it is evident that the Internet is crucial to an organisation like IFAC in supporting its claims to be working in the global, public interest and making the world of audit standard setting accessible to an interested public in a way that it has never been before. However, at another level, it can be seen that the global legitimacy of IFAC's standards depends on a range of additional factors, including the scale of the 'interested' and 'participating' public and the commitment of its membership. If a substantial or significant element of the public or IFAC's member bodies fails to participate in the standard setting process and chooses to ignore IFAC's standards in practice, and if IFAC cannot enforce compliance or if the sanctions for non-compliance are not adequate or appropriate, IFAC's claims to being the issuer of globally legitimate auditing standards will look flimsy – even if those standards have been globally exposed for public comment on the internet. Likewise, if the transparency offered by the Internet goes hand-in-hand with key decisions and policy justifications being arranged and/or ironed-out in private meetings between senior officials, claims to public interest commitments will look something of a sham.

In this respect, it is possible to see changes in the way in which the Internet is being used by IFAC. Policy speeches by key IFAC officials, particularly by IFAC President, Graham Ward, are being made and made available on the IFAC website with increasing frequency. The 'membership obligations' of IFAC member bodies (which essentially involve following IFAC's standards) are becoming far more visible on the IFAC website, with surveys and self-evaluations of standards of compliance being published. Finally, there is a changing tone in IFAC policy documents with a growing emphasis on IFAC's leadership of the 'global' or 'world-wide' accountancy profession, while IFAC's relationship with member bodies appears to shift from one of representation to one of instruction (see Loft et al, 2006: 32); from a basic promoter of harmonisation and convergence in auditing standards to one in which it seeks to assert its global power and legitimacy through a developing organisational structure which splices together three key elements in the global financial arena:

- (1) The global strategy and interests of the big audit firms (primarily the Big 4, but also the 2 largest of the next tier) acting through the TAC;
- (2) Important persons from the world's professional associations of accountants through IFAC's Council and Leadership group.
- (3) International regulators who are embedded in the organisation in the form of the World Bank/IOSCO/BCBS/IAIS/European Commission. Through the Monitoring Group and through the PIOB's 'embedded oversight' they implicitly approve IFAC's actions.

IFAC appears to have gained substantially from its association, post-Asian crisis with both IOSCO and the Financial Stability Forum (FSF) which lent its clear backing to IFAC standards. However, without the affordances of the Internet it is debatable whether IFAC could have ever got itself in such a position to be recognised as a key standard setter and leading authority in today's global financial infrastructure. Given such a status, it is evident that IFAC.ORG will remain an important site for the foreseeable future for those wishing to view or participate in the development of particular auditing, ethical, educational and public sector accounting standards. For researchers interested in the strategic development of regulatory bodies operating in the global financial arena,

we suspect that there is much more to monitor, review and search with respect to the role and significance of the Internet. We may have been more interested to date in the transparency of standard setting processes, but we are likely to get more interested in how the internet not only makes strategy transparent but directly shapes and supports key organisational action plans and policy agendas. We certainly need to keep a strategic eye on, or in today's language, bookmark for important future reference, IFAC.ORG.

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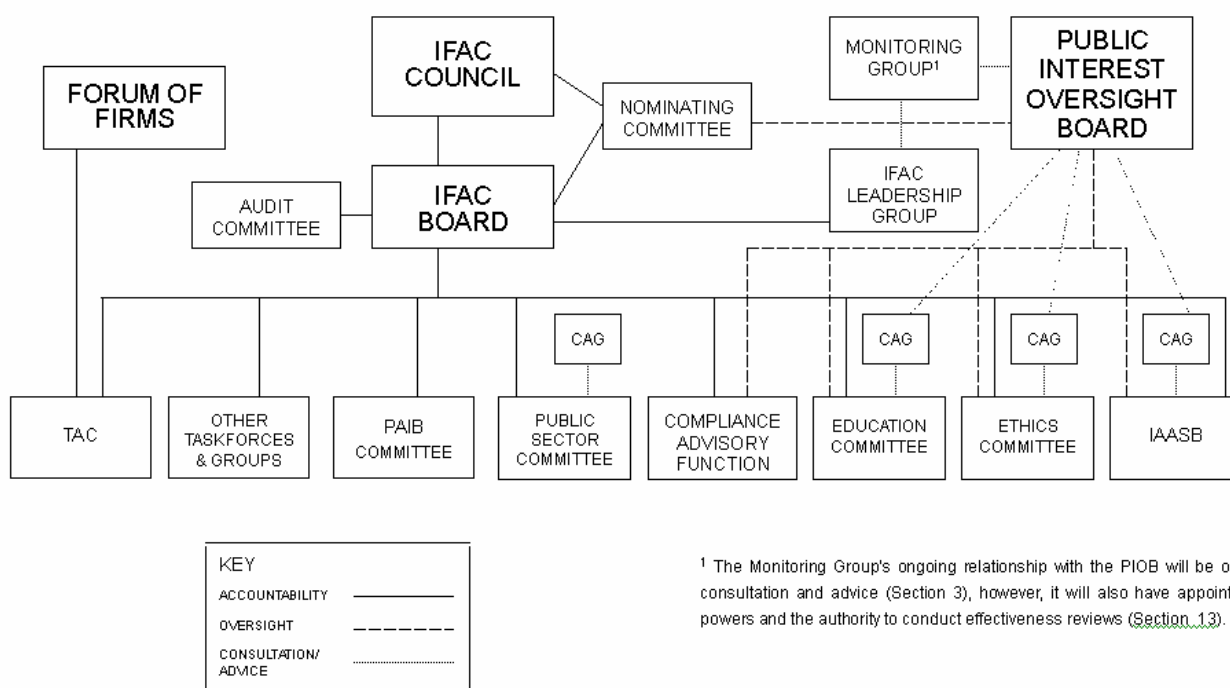
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Table 1: International Federation of Accountants (IFAC) Summary of Characteristics (January 2006)

Dimension	Characteristics
Type of organisation	Non-state actor, Meta-organisation
Membership	Professional associations of accountants: 163 members from 120 countries representing 2.5 million accountants worldwide (as at 17 th January 2006)
Zone	Global financial sector – part of ‘new international financial architecture’
Head Office	New York
Period of activity	Formed 1977; only gained significant authority since late 1990s
Staff	35 permanent + many volunteers from member professional associations sitting on committees
Funding	Member bodies and the large audit firms (especially the Big 4)
Major activities	(1) Setting international rules for professional accountants (2) Representing the international accountancy profession (3) More recently: introducing a compliance programme to ensure that member bodies make their ‘best endeavours’ to ensure the standards are used.
Best known for	Producing International Standards on Auditing ISA (through IFAC’s sub-committee the International Auditing and Assurance Standards Board IAASB).
Biggest ‘customer’	European Commission: From 2008 compulsory for auditors to follow ISA when doing statutory audits in EU member states (2 million audits)
Most difficult task	Trying to ensure that the 2.5 million auditors who are members of its member bodies ultimately use the standards. This is difficult, as IFAC has no direct authority over individual practitioners, and the use of the standards is dependent on member bodies and national and international regulators in varying proportions and at varying times, endorsing them, ensuring they are used and enforcing compliance - all this in many different languages.
Competition	US also produces auditing standards, these apply for the audits of all companies quoted on US stock exchanges and thus also extraterritorially to foreign auditors. Working with IAASB on convergence of standards
Use of internet	(1) Internal communication: intranet – staff, committee members (700 on) (2) External communication: extensive website: www.ifac.org . Provides detailed information including the structure of the organisation, meetings, downloads include standards, exposure drafts and comments on them. (3) Public participation: can register to observe certain meetings, submitting comments etcetera
Basis for authority	Reconfigured professional authority in a global arena dominated by international regulators, the Big 4 and powerful states (especially USA)
Type of governance	Technocratic network governance where internet is a significant enabling factor, legitimacy based on technical expertise, acting in the public interest
Special characteristic	An organisation creating international standards where regulatory oversight is embedded in the organisation itself in the form of the PIOB

Figure 1: Approved Reform – IFAC Governance Structure (2003)
 (Source – IFAC, 2003b, p. 26)



CAG stands for Consultative Advisory Group
 TAC stands for Transnational Auditors Committee
 IAASB stands for International Auditing and Assurance Standards Board

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Note that since this diagram was made (and as at 11th February 2006) the following changes have been made:

- Ethics Committee renamed: International Ethics Standards Board for Accountants (IESBA)
- Education Committee renamed: International Accounting Education Standards Board (IAESB)
- Compliance Advisory Function renamed: Compliance Advisory Panel (CAP)
- Public Sector Committee renamed: International Public Sector Accounting Standards Board (IPASB)

There is now a Developing Nations Committee and a Small and Medium Practices Committee (previously task forces)

ABBREVIATIONS

AICPA	American Institute of Certified Public Accountants
BCBS	Basle Committee on Banking Supervision
BIS	Bank of International Settlements
CAG	Consultative Advisory Group
CAP	Compliance Advisory Panel
EC	European Commission
EFRAG	European Financial Reporting Advisory Group
EU	European Union
FEE	Fédération des Experts Comptable Européens
FoF	Forum of Firms
FSF	Financial Stability Forum
IAASB	International Auditing and Assurance Standards Board
IAIS	International Association of Insurance Supervisors
IAPC	International Auditing Practices Committee
IAS	International Accounting Standard
IASC	International Accounting Standards Committee
IASB	International Accounting Standards Board
ICAEW	Institute of Chartered Accountants of England and Wales
IAESB	International Accounting Education Standards Board
IESBA	International Ethics Standards Board for Accountants
IFAC	International Federation of Accountants
IFAD	International Forum for Accountancy Development
IFRS	International Financial Reporting Standard
ILG	IFAC Leadership Group
IMF	International Monetary Fund
INGO	International Non-Governmental Organization
IOSCO	International Organization of Securities Commissions
IQAR	International Quality Assurance Review
ISA	International Standard on Auditing
ISAR	Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting
MG	Monitoring Group
PIAC	Public Interest Activity Committee (this includes IFAC's IAASB, the Education Committee and the Ethics Committee)
PIOB	Public Interest Oversight Board
POB	Public Oversight Board
PCAOB	Public Company Accounting Oversight Board
ROSC	Reports on Standards and Codes (World Bank)
SEC	Securities and Exchange Commission (USA)
SMO	Statement of Membership Obligations
TAC	Transnational Auditors Committee