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‘Towards the Globalization of the Accounting Profession'

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Globalization, Coordination of Accounting Standards and Mutual Recognition of the Qualifications of Accounting

If someone asked: “What is the right word we must use to express the prevailing attitudes and trends in the world at the present time?” I believe the right answer would be "Globalization".

The shrinking in the size of the world, metaphorical speaking, has inevitably led to the pursuit of globalization. As you already know, the world began to contract with the evolution of transport from cars to planes; but the real shift came in the revolution of the world of communications which quickly led to global connection. The means of communication took a variety of forms such as: fax machines, cell phones, satellites and computers etc..., but they all serve the same purpose which is the flow of connection.

Perhaps the greatest and most important phenomenon of the 'communication revolution' was the Internet. Despite the multiple channels of communication, the Internet has contributed to the linking of the world in a way that stretched beyond anyone’s imagination, even twenty years ago.

The Internet, and its associated technical means, helped reduce distances between people in a way that has been unprecedented in human history. Of course, the Internet is not just a means of communication between people and places; it is a tool for facilitating the flow of information, which is primarily the ultimate goal of communication. This new phenomenon necessitated its own term, which was "Global Information Infrastructure" (GII). This infrastructure is now a subject of hot debate which took place recently in institutions of knowledge and private enterprises all over the world.

On another level, there was a very important development related to the communications revolution, but it took independent paths and contributed effectively in the advancement of globalization. By this, I mean the current tendency towards the liberalization of trade, especially liberalization related to numerous parties under the umbrella of the WTO.

The WTO takes the lead in liberalization of trade in both goods and services, and it’s also trying to set up reasonable minimum standards of intellectual property protection throughout the world. What the WTO does is put globalization into practice, the thing that cyberspace - the Internet - may not be able to do. The overlap between the two phenomena is very significant to the extent that it is difficult for the average person to determine the principle of one and the purpose of the other.

For example, although the services are not actual physical objects, they do have concrete material effects, which is certainly one of the forms of trade. Moreover, such services can be delivered through electronic means from one place to another beyond the scope of "location" leading to the melting of national boundaries.
Of course, other factors helped in pushing globalization. For example, the proliferation of large companies known as multinational corporations and the internationalization of capital markets which created pressures that contributed to the coordination and unification of requirements set by government bodies responsible for regulating financial matters. It is worth mentioning that these pressures came from the private sector and regulatory governmental bodies themselves.

There is no denying that the world of business and trade has acquired a global character, but they are still suffering from the lingering effects of the forms in which they were before globalization. For instance, accounting standards in the United States differ from those in Europe; therefore, it is necessary for European companies that wish to enlist on US stock markets to prepare several financial statements creating difficulties for companies which are obliged to prepare different types of tax, commercial and public reports at different locations.

While the whole world is moving towards globalization, there are still a significant number of business activity branches that are still in their old situation. Indeed, there is much to be done before people from all over the world can reap the fruits of this new global society.

In this respect, I should mention that globalization is not specialized only in business and trade, but is also linked to a number of cultural, social and political issues; however, what concerns us here are the issues related to business and thus accounting, given that accounting was traditionally known as the "language of business and trade."

As we can see, the world is heading irreversibly towards a global market. While the cross-border exchange of goods, services and capital is accelerating, there is an urgent need to find the available means for agencies that organize these sectors in order to make the language of reporting the financial information of companies and businesses clear and understandable to all.

From here, the need to develop global accounting standards arises. The standards are the only way to make accounting a reliable language that can represent all of the sectors in the best way possible.

Without these standards, those studying the financial reports will not be able to ensure the accuracy and reliability of them or whether they give a clear picture of the actual situation of the institution that the report is based on. The absence of standards might also lead to the disability of extracting consistent interpretations from the reports. But all of the above can be achieved by recognizing the standards that have been instrumental in the preparation of these reports.

There are a considerable number of countries which have their own accounting standards. Developed countries, such as the United States and the United Kingdom, have enacted a number of accounting standards over
the years. These standards were issued by the country's national accounting associations and are used by a myriad of companies. According to these standards, financial statements are prepared upon which investors, loan institutions, banks, stockholding and government bodies rely on to reach important decisions which are often critical for previously mentioned companies.

Moreover, there exists in the United States accounting regulations that are different from those practiced elsewhere and that applies to all accountants. Although the American accounting standards are comprehensive and accurate, they are considered generally stricter than others. In addition to that, the accounting standards of the United States are not recognized internationally despite their powerful impact and influence. Due to this fact, international bodies, for example, the International Federation of Accountants (IFAC) and the International Accounting Standards Committee (IASC), has worked to develop international accounting standards.

The problem is that although many of the countries practice international accounting standards as their national ones, an international mechanism to ensure the compatibility between global and national accounting standards has not been reached yet. Therefore, global companies and international bodies still face the problem of formulating their financial reports in order to meet requirements which vary from one country to another.

Accounting is a professional service; consequently it abides by the WTO and the GATS, a WTO agreement. This raises the hope of achieving a greater harmony in accounting standards soon. The WTO’s efforts concerning accounting, focuses on the liberalization of trade in accounting services. It is fairly obvious why the harmonizing of global accounting standards falls under the responsibility of the WTO for the following main reasons; First, because simply by harmonizing standards, the consequent objectives resulting from this harmonization process will be achieved, and secondly because of the importance of this reconciliation on the trade of services.

Another relevant issue is the required qualifications of those who provide accounting services. The WTO’s decision, pertaining to professional services, stated that the task group of professional services must work on: “The preparation and development of multilateral regulations regarding access to markets,” as well as “preparation of reports with recommendations regarding the regulations necessary to ensure that the requirements and procedures for transaction rehabilitation, technical standards and licensing requirements in the area of services does not constitute any obstacles to trade.”

Let me before delving into the topic of the required accounting qualifications, continue on the subject of accounting standards and the need for global ones. In this regard, I would like to assure you that at a time where progress is needed, it should be understood that the process of setting and developing accounting standards is indeed a complex and challenging one. What makes things more difficult is that the accounting standards were usually based on the social, economic and political situation prevalent in a region. Therefore, I will briefly explain to you, ladies and
gentlemen, the main factors that have historically affected the standard-setting process which are as follows:

1. The state's legal system: In some countries where the Roman system is practiced such as the case in France, we find that the legal system has organized the way companies operate through a specific law known as 'Company Law.' In this case, the law includes detailed items which lay down the requirements of accounting and the preparation of reports.

   In other countries, whose legal system is based on the idea of the general law of the United Kingdom, the system focuses on the laws that have been issued to resolve specific situations and issues, in order to meet the ever-changing need. In this case, we believe that the process of establishing those standards is more like issuing laws, while such laws in other countries are being developed by people who work in the accounting profession of the private sector. In Europe, in particular, the issuance of general policies plays a significant role in the process of creating standards.

2. The nature and structure of commercial property: There is a considerable difference in accounting standards between countries where the public is the main stakeholder, and countries where the ownership of businesses is concentrated in the hands of banks and other financial institutions. As in this case, the banks could obtain detailed information "from informed sources," thus the government in its various forms will be alone in being exposed to reports and even that, it is often limited to the protection of the public's right, collecting taxes and guiding the economic activity. In such countries, the financial reports try to minimize possible tax consequences, and provide an unclear and incomplete image of the company's financial situation.

   Accordingly, there is little probability that the countries where the ownership of stocks is in the hands of its people, have worked on the development of accounting standards that are designed to ensure that the financial reports do provide useful and reliable information at the right time.

3. The political system and intellectual property balance between the public and private sectors: Public companies often play an important role in the economical development of the country. The preparation of financial reports varies from the private sector to the public one, according to the different needs of those who observe the information contained in the reports. In the case of the public sector, and in countries where the economy is under the control of the government, we believe that influence on the process of establishing standards tends to be much stronger than in other countries. Establishing reports in the countries of governmental dominance is designed to highlight aspects of social and economic development, in addition to its financial nature.
4. The level of economic progress: In developing countries, we find that certain families, which are often a small group of wealthy aristocracy, tend to own most of the companies. In these countries, governments also dominate a larger number of companies. At the same time, it’s unlikely to find a large number of accountants who are engaged in the profession and also work to develop the professionalism in it. Therefore, the absence of the need and the inability to prepare high-quality financial reports has a strong impact on limiting the capabilities of developing countries to develop accounting standards in the real sense of the word.

5. The tax system: In some cases, the tax system and its accompanying legislations might have a significant impact on the development of financial reporting standards. For example in the United States, the accounting technique which states that "last received is the first to be issued" is used only for tax purposes if mentioned in the financial reports.

6. The existence of a professional accounting society: The presence of an active professional accountancy body helps to regulate the registration and examination requirements, work professionally, hold conferences and prepare teaching materials and other types of publications. Furthermore, the society can create the right atmosphere for education and researches, and it can encourage and promote the development of accounting standards and practices, as well as monitoring aspects of compliance to requirements. Under such circumstances, the government may find it more appropriate to entrust the work of establishing standards to professional accountants. But if the accounting profession hasn’t reached a level of development that enables it to achieve all of the previously mentioned tasks, it may become necessary for the government to increase its intervention in the profession and its system.

7. Offering shares in foreign markets: The need to attract foreign investors, either in the form of direct investment or through investment portfolios, requires an acceptable system for the submission of financial reports in the developing countries. Sometimes this may be a greater incentive to develop proper accounting standards than in the case where the financial reports must only cover the needs of local companies in the same country.

As a consequence, we believe that the International Organization for the Financial Reports Commission is a member of the board of directors of the International Accounting Standards Committee (IASC), and has the credit for the accreditation of those standards.
By reviewing the factors that have affected the standard-setting process, we can see the reason behind the significant differences in the national accounting standards, which often took different forms in different parts of the world. On the other hand and despite the fact that national standards vary according to historical circumstances, it is still not a reason for preventing the possibility of reaching harmonization among them.

While we are moving towards an integrated global economy, we must activate the process of formulating accounting standards which will be officially recognized worldwide. All of that falls under the umbrella of the WTO; however, this organization must join forces with other key organizations responsible for these matters which include: the IFAC, IASC, along with a group of governmental experts who work for the United Nations for Accounting Standards and International Reporting.

At a time when we are seeking to achieve this objective, it is relatively easy for the developing countries to be a part of the new system as many of them adopted the international accounting standards which were issued by the IASC and considered them their national standards with a simple modification or even without.

But the situation is different for the developed countries, because of their long traditions and practices as we mentioned before. Those countries must accept fundamental changes and adjustments, which is what indeed often happened regarding the liberalization procedures which were based on agreements with the WTO.

It’s worth mentioning, that the IFAC and the IASC must abide by the WTO commitment to multilateral liberalization in opposition to bilateral commitments, and they have to support this idea together. The IFAC and the IASC must recognize that the WTO overtook the authority of other national and international organizations, and also that accounting is a professional service of which WTO is responsible for its order.

Despite the many difficulties facing this issue, there has been much progress in global accounting standards and further progress is expected in this area. The faster this is achieved the better the situation will be, since this will facilitate the means of communication and increase the reliability of the financial statements which will consequently be beneficial for both the developing and developed countries.

On the other hand, we’ve come a long way in achieving significant progress with regards to the accounting standards, but the international bodies have ignored vital and relevant issues which are: accounting education and the qualification and accreditation of accountants.
Global Accounting Education & Qualification:

If we want to achieve success and be able to accomplish what we would wish for, in regards to global accounting standards and global free trade, it is logical to say that there are general standards needed to provide such important services through the framework of accounting qualifications on a global scale. The international accounting bodies has ignored that there is an obvious need for the formulation of a global accounting qualification standard. Therefore, I will introduce to you some of the ideas that affect the aspects of qualification and education within the structure of globalization:

1. Trade in professional services (WTO): If we want to liberalize the trade in professional accountancy services, we will face the need for an approach to assess the levels of professional knowledge accountants within a relative framework. What is happening now is that countries follow different methods for the qualification of accountants, where some of them grant qualification at a higher level.

2. There is a need for qualified accountants who can provide financial reports corresponding to international accounting standards.

3. The developing countries face serious problems in the education and qualification of accountants. Consequently, accountants of the developed world will be more qualified than those of the developing countries. As a result, we believe that international companies are not only obliged to bring accountants from other countries, but also the economies of developing countries will be falling in a vicious circle, in which it will be impossible to raise the level of qualification standards because of the lack in the number of people who are able to prepare, publish and practice them.

Whoever examines the above observations, may detect the urgent need for global accountant standard. In the round, which I chaired, in 1993 at the United Nations Headquarters in New York, the ISAR Group (a group of experts working for governmental accounting standards and reporting) voted unanimously to prepare global qualification standards and assigned this task to the IFAC. As a result of the reluctance of the federation, the UNCTAD adopted the issue.

The Commission, which I currently chair, developed a program of action that is applicable to a large extent, and it met in Geneva on October, 1997 in order to revise the anticipated world program.

Perhaps the best thing that could be done in this area, is achieving the collaboration between the commission, the federation and the ISAR. We also believe that the federation must be aware that the United Nations Conference (UNCTAD) is the most important organ within the United Nations, which can work on unifying and harmonizing the accounting standards for all of the companies and bodies.
The developing nations during the GATT’s negotiations and even up until the WTO foundation, doubted the intentions of both free trade and the developed countries.

Due to the failure of alternatives of the free capitalist market, and even with the continued provision of assistance and aid as well as assurances and offerings of compromises from the developed countries, the developing countries have accepted the signing of the WTO in the hope of making use of the organization’s promise of free trade and prosperity for all member states with the realization that, that was only possible by taking into account the concerns of the developing countries and also by comforting them regarding the matters of their apprehension.

The instinct for self-protection exists in everyone, and of course it’s unimpeachable and can be understood. Therefore, at a time when the WTO attempts to achieve its objectives in globalization, tendencies towards protection policy, as happened with the IFAC, will fall inevitably on the sidewalks. On the other hand, I am aware that there are a sufficient number of supporters of free trade and global economic development, therefore, we as developing countries can rely on their support in our quest for improvement and progress.

There is no doubt that we will witness the achievement of international accounting standards, as well as a system of global accounting qualification. The establishment of these international standards and its international recognition will work to modernize the accounting profession and bring it into line with the drift towards globalization. When the accounting profession universally spreads, we can hope for even a greater pursuit of a global economy in the true sense of the word.

Thank you all for your presence, May peace and God's mercy and blessings be upon you.

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