

## **EBA and the Future of Estonia**

IFAC and EBA Joint Conference

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I am delighted to be here in Tallinn today and I would personally like to thank Toomas Vapper, Chairman of your Management Board, for all his efforts not only for this week's activities, but for the leadership role that he has taken in IFAC meetings and workshops over the past few years.

His efforts to ensure the success of our Board meeting here in Tallinn are very much appreciated.

He represents both the best of modern Estonia and the high-quality work of the Estonian Board of Auditors, the EBA.

It is worth noting that this is the first time that the IFAC Board has met in this region, and I am personally very pleased by the fact that we are meeting here and in this way expressing support for one of our relatively new members.

You may know that I'm based in New York, but this is not the famous – or infamous - New York accent you're hearing.

I am from New Zealand and I've been looking forward to this visit because Estonia has quite a few things in common with my native country.

We're both geographically small countries, with lots of coastline and islands.

We both have very small populations by international standards.

We are both 20 years out of highly regulated economies – New Zealand used to be referred to as the “Albania of the South Pacific” – but like Estonia – now ranked as one of the most business-friendly in the world - New Zealand is seen as having a modern and flexible economy.

And some foreigners think that our languages sound unusual—yours from its Finnic roots, mine from its, well, English roots on remote islands where the language, like the native birds, many of which are flightless, has evolved in its own somewhat peculiar manner.

Therefore, I am happy to be in a country where I feel very much at home.

I am going to speak today about EBA's leadership role in the future of Estonia—and it is clear to me that your organization has taken such a role.

After all, it is impossible for a country like this to have had such remarkable success without the help of its accountancy profession.

And it will not continue its development without that profession continuing to take an important and public interest focused leadership role; taking its share of responsibility for the regulation and effectiveness of corporate law and business activity.

The kinds of success I'm speaking about are, for example,

- becoming a member of the European Union after being independent for less than 20 years,
- having an economy that the World Bank has rated as 'high income',
- having a balanced budget , with almost no public debt,
- having the world's first flat income tax,

- and having, until 2006 and the onset of the current financial and economic crisis, one of the world's fastest growing economies.

I don't think we have to dwell on the misfortunes that have fallen on your country or others around the world since the economic crisis began.

I will say, however, that the downturn has affected yours more than many other countries, simply because your accomplishments have outpaced your economy's ability to easily absorb the shocks of a steep contraction in its GDP.

As your economy begins to mend itself—and I do understand it is showing signs of recovery—I am pleased to see that there are steps already being taken by Estonia's accountancy profession to help restore integrity to this part of the global financial system.

These steps relate to such vital matters as adopting global standards in accounting and auditing, quality control, accounting education, and ethics.

Through these efforts, your country can prove itself as worthy of the trust of investors as you did in the past—but Estonia may have to work hard to do so, because you face cautious investors who have suffered losses due to the financial and economic crisis.

Being able to show that you have adopted and implemented global standards will help to enhance Estonia's image in the financial community.

Indeed, if there is anything that I would want to stress to the EBA and to Estonia it is that you must keep moving forward—as I see you have been doing.

Whether this means adopting global standards or taking steps in re-building your country's financial infrastructure, it makes you a stronger member of the global financial community, and of the EU, and better able to contribute to renewed economic growth and through that the public interest.

Because time is short today, I am going to confine myself to just a few of the critical ways that EBA and the accountancy profession in this country can continue to distinguish themselves.

The EBA and the accounting profession are to be congratulated, for example, for your work over the last several years, in helping to finalize the new Auditing Act of Estonia, which will bring your country in line with the EU's 8th Directive, as well as with IFAC's own membership obligations.

Another major accomplishment is having already translated the Clarity ISAs into Estonian – this is a very notable achievement and a significant contribution to IFAC’s key strategic objective of obtaining European Commission endorsement of the International Standards on Auditing.

We are particularly happy that EBA was successful in promoting the incorporation of the International Standard of Quality Control (ISQC) 1 requirement into the latest draft of the new Auditing Act and that a translation is already available for use by all Estonian auditors again, a very notable achievement.

Under the new Act, the Quality Assurance reviews will be mandatory for all audit firms and EBA will be authorized to develop new quality review guidelines.

The new regulations will also introduce the Public Interest Oversight Board (PIOB), which will have ultimate responsibility for supervision of quality assurance in Estonia, while EBA will perform the reviews.

I understand that the Auditing Act reached Parliament in June of this year, but still has three more readings to go.

We look forward to its proposed effective date in January 2010, when the final revisions can be incorporated into your IFAC action plan, but we know that you have taken all possible actions in the meantime—because, as one of the newer members of the European Union, you know that it is to your benefit to show your commitment to transparency and high quality financial reporting by strengthening your country's accounting profession.

One critical way of strengthening the profession is, of course, through accounting education, which remains a fundamental pillar in improving the reliability of financial reporting.

We are entering a stage in history when accountancy is truly a global profession, in terms of rapid convergence to single sets of auditing and financial reporting standards, at a time when new or enhanced institutions are being developed for regulating the profession and the global financial environment.

To make these changes work in the long term, it is necessary to have a profession with high-quality accounting education programs in order to develop future

generations of accountants and auditors with, in turn, the highest levels of integrity and professionalism.

The ongoing education of accountants lies at the heart of everything our profession hopes to accomplish—for, if we are to bring clarity and quality to the financial information we produce, we must have the ability to increase the capacity and capabilities of the professionals that produce that information, whether they be in accounting firms, accountants in business, or accountants in the public sector. The EBA needs to take a leadership role across the whole of the profession even though its membership is made up of auditors only.

You should consider, as your country continues to develop economically, how to influence and secure high standards from all parts of the accounting profession, as they are all critical to achieving economic success.

You took another significant step when you signed an agreement under the Estonian-Swiss Cooperation Program for funding for the "Financial Reporting Technical Assistance Project", to be implemented during the period February 2009 - January 2014.

Accounting education is one of the focus areas of the new project agreement under the program, which is planned to run for 5 years.

I am impressed that the leadership of the EBA, who will play a critical role in training for IFRS and ISAs under this project, recognizes that they must invest in the profession to secure a solid infrastructure for growth and continued development.

Before moving into the final section of my remarks, I would like to comment on one of our Statements of Membership Obligations which often gets too little attention – that relating to International Public Sector Accounting Standards.

I mentioned earlier some of your countries achievements in its fiscal management – including a balanced budget and very low government debt.

These achievements do not come lightly.

Maintaining them requires a number of things, one of which is high quality accounting and financial management by your Government.

This is where the International Public Sector Accounting Standards come in.

Adhering to these standards provides a solid base for government accounting and financial reporting, and I encourage you to use your voice in advocating their adoption by your Government.

High quality financial management in the public sector will help to protect all that you have achieved in creating a sound environment for economic development in the private sector.

My final remarks will be about ethics, which are pivotal to our profession.

You must always remember that strong and clear audit independence standards are vital to investor trust in financial reporting—and a common understanding of what it means to be independent when providing assurance services, for example, will reduce barriers in international capital flows, which is so important to your country's future.

In the coming year, you will need to think about implementing the recently revised Code of Ethics for Professional Accountants, the revision of which clarifies the Code and strengthens the auditor independence requirements.

The revised Code of Ethics, which is already in the process of being translated into Estonian, I understand, maintains its principles-based approach, but is supplemented by detailed requirements where necessary.

It strengthens independence requirements in a number of ways, for example, by requiring a cooling off period before certain members of a firm can join public interest audit clients in certain specified positions, and extends partner rotation requirements to all key audit partners.

In addition, the Code now strengthens some provisions related to non-assurance services to audit clients, and prohibits key audit partners from being evaluated on or compensated for selling non-assurance services to their audit clients.

These kinds of changes result in an Ethics Code that is not only robust, as it always has been, but is also sufficiently flexible to address the wide-ranging circumstances encountered by professional accountants.

For example, it reflects the improved risk management that companies may need as they strengthen their corporate governance.

We look forward to the convergence of your national standards with our Code of Ethics by the end of next year.

In concluding, I want to recognize and express admiration for how much has been accomplished in your country, in such a short time, by a small group of dedicated professionals.

Like Olympic and world discus champion, Gerd Kanter and Olympic and world skiing champion, Andrus Veerpalu, they bring honor to your country and are true champions of Estonia.

I look forward to learning in the future of your continued successes; of your acceptance in to the European Monetary Union, of your successful passage and implementation of the audit law; and the continuing growth and strengthening of the EBA.

Thank you.

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