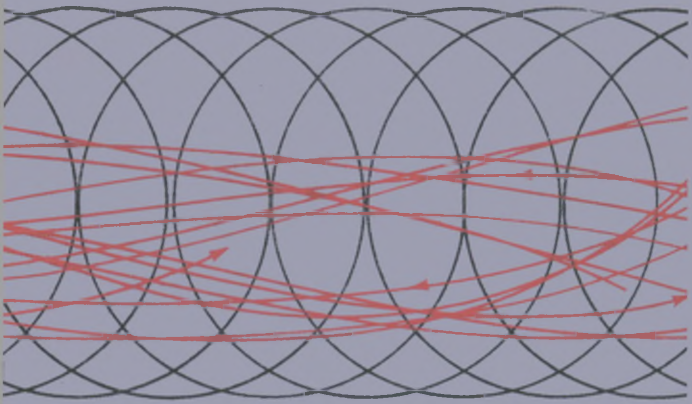
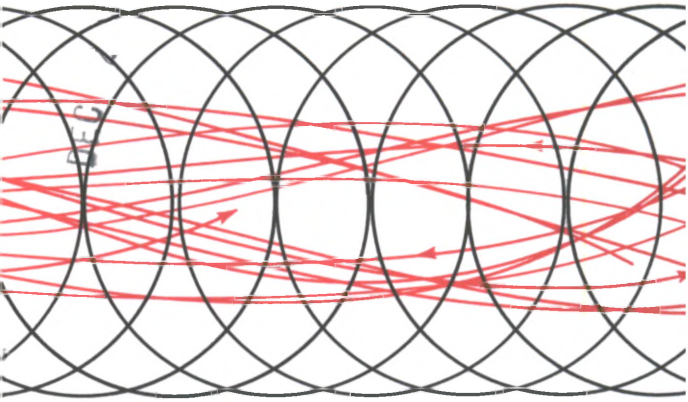


accounting practice and international business



accounting
practice
and
international
business

The Council of the American Institute of Certified Public Accountants has agreed as a long-range objective to foster the freedom of movement in international accounting practice. In furtherance of that objective, this statement on the importance of the practice of public accounting in international business has been prepared.

accounting practice and international business

With the rapid expansion of multi-national business, there is an ever-increasing need for accounting practice on a multi-national scale. The American Institute of Certified Public Accountants, the national professional society of CPAs in the United States, believes that businessmen, government officials, and professional accountants throughout the free world should have a clear understanding of the proper role of professional accounting in the world economy. This pamphlet has been prepared to assist in achieving that objective.

From Bretton Woods to the European Common Market, the major achievements of the period since World War II have made possible greater levels of international co-operation. Recent examples are the European Free Trade Association, the Latin American Free Trade Association, and the Central American Common Market.

Considering that post-war history, the tremendous technological changes already under way in the industrialized nations, and the wave of rising expectations in the developing nations, today is hardly the time for impairment of free trade and the free flow of capital. Indeed, in our contracting world, with its ever-increasing demand for international commerce, and notwithstanding periodic political disagreements, it is difficult to believe that the erection of artificial barriers which reduce the level of this commerce will serve the long-term best interests of any nation. Yet this is precisely what is happening in countries which are restricting, or threatening to restrict, the rights of accountants to practice on an international scale.

international accounting practice

Just as accounting is the language of business, international accounting has become the language of the international businessman.

Accounting includes the development and analysis of data, the testing of their validity and relevance, and the interpretation and communication of the resulting information to intended users. The business communities and government agencies around the world have learned to rely on independent auditors' reports expressing opinions as to the fairness with which financial statements present financial position and results of operations.

But fairness is not a meaningful concept apart from the standards by which it is judged.

In the United States and a number of other countries, standards have been developed, through experience, into a framework of accounting conventions now referred to as generally accepted accounting principles. Further, opinions on the fairness of financial statements must be based on examinations, and certain standards exist by which the adequacy of any examination is judged. In the United States, these standards are known as generally accepted auditing standards. International accounting relationships exist primarily to ensure that the accounts of foreign divisions and subsidiaries are audited and summarized in financial statements without substantially departing from the accounting principles and auditing standards used in the country of the parent company.

Uniformity in approach and presentation of results is equally necessary to the tax and consulting services offered by professional accountants.

A multitude of laws govern the taxation of businesses by industrial countries. Competent tax service to an internationally diversified company requires representation in foreign countries by persons familiar with both the tax regulations of the host country and those governing the parent company, as well as with their interplay. Consulting on management problems involves, in addition to tax planning, information and control systems and techniques—for example, budgeting, cost control, profit planning, internal reporting, electronic data processing, and quantitative analysis. Advice to an international organization on such matters requires a high degree of co-ordination.

As a company grows and expands beyond national boundaries, the task of obtaining uniform financial data and co-ordinated tax and management advice becomes correspondingly complex. Accountants practicing internationally have traditionally provided such unified service to their multi-national clients throughout the free world. These accountants practice in various ways—some under one name or related names around the world, and some through close association with other firms under agreements permitting supervision of the practice to ensure high quality work.

Accounting firms which operate on an international scale employ and train as many qualified nationals as possible who will be able to take positions of increasing importance in their own countries. Nationals serve not only on the staff level but as managers and partners as well; in fact, they constitute a substantial majority of the partners and staff in most countries. The firms are, therefore, international in every sense of the word.

Training programs conducted by these firms, as well as their professional practice and their broad fields of expertise, enable them to offer co-ordinated service on a worldwide basis.

Some firms maintain staff training schools on various continents which, despite differences in language, accounting terminology, and currencies, have proved highly successful. Such programs advance common accounting theory and reporting standards, and alleviate the problems caused by limitations of language and culture.

The firms engaged in international practice also constitute a vital force through which professional development may be stimulated on a worldwide basis. Accountants trained by these firms have become important additions to their professional community and have been an active force in encouraging a high level of performance.

By maintaining uniform professional standards on an international basis, the firms have aided local accounting societies in establishing technical and ethical rules that are basic to sound accounting and reliable reporting. They have assisted in developing local business enterprises and in creating a more attractive climate for investment. They have helped local governments to develop and use financial management techniques. Perhaps most important of all, they have provided deans and professors for local universities. In some developing nations, indeed, they have been the catalyst for the establishment of an accounting profession.

the importance of accounting uniformity

With the widening of free trade, broad international ownership of the global corporation is imminent. Even now there are many corporations, both large and small, whose ownership and operations are multi-national; there are also international joint ventures, often with some form of governmental participation.

The participants and sponsors of these organizations all require reliable, comprehensive, and intelligible financial information. The Export-Import Bank, for example, which has loans outstanding in over 100 countries, recognizes that an important element in the the success of any project is the adequacy of accounting controls, which directly affects the ability of the project to repay its loan and continue to contribute to its country's economic progress.

There are significant differences in financial reporting around the world, both in substance and form. Differences in substance arise in many countries where it is generally recognized that the statutory or traditional requirements for financial reporting are intended only as a protection against overvaluation of assets or understatement of liabilities. Since those requirements are not designed to ensure the presentation of a fair view of the company's financial condition or its operating results, equity and profits—primarily out of tax considerations — are often substantially understated.

The need for an international language of accounting, therefore, becomes ever more apparent in a world economy in which private and government business each day grows increasingly international in character. To the extent that accounting principles differ among nations, the danger exists that statements will fail to convey necessary facts to the international businessman, investor, or government administrator.

In Canada and the United Kingdom, that danger is reduced by legislation requiring that the auditors of a parent company express an opinion on consolidated financial statements whether or not the examination of a subsidiary has been carried out by other auditors. These statutory requirements focus attention on a problem common to all jurisdictions—namely, that the primary auditors in one country must be able to satisfy themselves as to the work of the secondary auditors in another.

For most international corporations—public, private, and government-sponsored—typically consisting of a parent with a number of divisions or separately incorporated subsidiaries in different parts of the world, it is necessary to have consolidated financial statements prepared on a uniform basis. These international corporations have attracted substantial amounts of permanent and short-term capital from investors and creditors. Most of the investors and creditors are sufficiently removed from the corporation that, in deciding whether to continue or discontinue the supply of funds, they need credible information, contained in financial statements, about the present financial position and historical results of the operations of the enterprise. The attest function of international accountants lends credibility to consolidated financial statements and permits rational evaluation of the results of operations in various countries. And the companies themselves, as they become more complex, require sophisticated and fully integrated tax and management advice.

Some countries will decide to make changes in the organization and operation of their capital markets and securities exchanges by regulating public offerings, by enacting reporting requirements, and by requiring the examination of financial statements by independent public accountants. Government regulation in such countries may thus be required to set standards of financial disclosure such as those administered in the United States by the Securities and Exchange Commission. Since the time of the Securities Acts of 1933 and 1934, however, the SEC has relied on professional accountants to supply governing standards; it can be predicted that government agencies similar to the SEC which are established by other nations will follow that tradition as well.

Thus, the terminology of accounting, its principles, auditing standards, and professional qualifications must be unfettered by national boundaries if accounting is to continue as the language of world business. International Congresses of Accountants, representing more than 80 member countries, have repeatedly urged that accounting principles and auditing standards around the world be harmonized. The practice of accounting across national boundaries has provided the impetus and much of the knowledge toward that end, and has helped to generate the degree of uniformity that exists today.

limitations on international accounting practice

Historically, accountants have been permitted to practice under reasonable statutes and regulations in the countries of the non-Communist world through offices staffed and managed to a great extent by nationals of those countries.

Recently, however, efforts in some areas have been made to curtail or eliminate that practice. Statutes have been passed forbidding the operation of "foreign firms" within the spheres of accounting, tax, and management services. Another restriction limits admission to the local practice bodies and societies to nationals educated at home who, in addition, are precluded from "associating with" accounting firms which operate on an international scale. There also has been legislation proscribing the use of deceased persons' names in the firm title—despite the fact that the custom of retaining a founder's name is essential to the maintenance of goodwill and professional reputation. These legislative restrictions seriously threaten the ability of accountants to serve their clients.

This, in turn, restricts the expansion of international business, creates factions in the profession, and promotes differences in accounting practices. These restrictions come at the very time when a greater degree of accounting uniformity is needed.

The motivation for exclusionary legislation cannot be attributed to a desire to protect local businesses and the investing public. Such protection can be achieved, as in other countries, by legislation which ensures that the public is exposed only to professionals who have satisfied character and technical fitness criteria. Nor does there seem to be any sensible purpose in forbidding association with an accounting firm merely because it operates internationally, particularly when its staff *and partners* are drawn from all over the world.

Accordingly, it must be assumed that these restrictions are the wrong kind—that is, they have not been impelled by the public interest. In some cases the force behind the limitations comes from practitioners purporting to act on behalf of the public but actually seeking to restrain competition. To the extent that such efforts are attributable to member countries of multi-national compacts, such as the Treaty of Rome and the General Agreement on Tariffs and Trade, or to signatories to bilateral treaties of commerce, they would appear to be illegal as well as ill-advised.

The American Institute of CPAs, through its "Form Bill" (a suggested pattern for state legislation) has urged the elimination of citizenship as a requirement for professional qualification. It has recommended also that qualified accountants of other countries be permitted to practice in the United States under the titles granted in their own countries. Foreign accountants have always had the right—which they have exercised—to report on financial statements for filing with the Securities and Exchange Commission.

the destructiveness of practice limitations

Ironically, apart from the over-all disruption of international trade and commerce, countries which suffer the most from limitations on international accounting practice are those that have enacted them.

Those countries are, themselves, affected by the degree to which there is any impairment in the flow of capital across national boundaries. For example, the International Finance Corporation, the Agency for International Development, the Export-Import Bank, and the World Bank and its International Development Association, all specifically rely on the public accounting profession. Artificial and disabling limitations on the profession only retard the ability of such agencies, if not their inclination, to act.

More specifically, the protectionist nations stand to lose the benefits to be gained from access to the years of experience available in firms which practice on a worldwide basis. In a country where tax collection is a problem, for example, it would be natural to expect some utilization of the American model. The United States has 70 million taxpayers; its self-assessment system could not have worked so impressively without the substantial assistance of the accounting profession. Similarly, the SEC, which has enabled the United States to develop a highly successful system of investor protection, can be emulated only with the assistance of a professional community thoroughly grounded in securities regulation.

There are a host of government-sponsored and government-organized units that are being created in many countries to combat urban and other social problems. These new governmental units, social programs, and regulatory agencies, together with the more traditional business enterprises, all call for a high level of accounting, tax, and consulting services offered by firms practicing on an international scale. Where those services are offered by local firms as well, so much the better.

Arbitrary restrictions on the international practice of public accounting are in reality restrictions on professional competence. As trade barriers discourage economic progress by limiting competition, so restrictions on accounting practice inhibit the development of the accounting profession. More important, these artificial barriers have an adverse impact on those countries imposing them. Access to capital markets and the ability to attract foreign investors are impaired.

In a time when economic progress is essential to meet the rising expectations of the world's population, the skills of professional accountants are becoming more important. To deprive an economy of these skills can, in the long run, only hamper economic development.