

02-03 NEWS

- Sharp takes over as president of the Scottish institute
- US SEC to propose IFRS choice for foreign issuers
- Internal control brings business benefits

04-05 EVENT: EAA ANNUAL CONGRESS

The conceptual framework, fair value and audit regulation were just some of the research topics discussed at the European Accounting Association's 30th annual congress

07 INTERVIEW: IAN MACKINTOSH

Ian Mackintosh speaks to *TA* about being head of the UK Accounting Standards Board

10 SPECIAL REPORT: AUDIT INSPECTION REPORTS

The new UK Companies Act may threaten the status quo when it comes to private audit inspection reports

11 INTERVIEW: TALAL ABU-GHAZALEH

The founder of the Arab Society of Certified Public Accountants, Talal Abu-Ghazaleh, speaks about the personal and professional challenges he has faced

15-18 COUNTRY SURVEY: US

The two leading US institutes have had a full agenda this past year – forging new partnerships and taking a stand on the debate over Section 404 of the Sarbanes-Oxley Act

AUDIT CHOICE

UK profession calls for action in wake of audit choice proposals

The UK Market Participants Group (MPG) has put forward 15 provisional recommendations that it believes could enhance the efficiency of the audit market and provide protection against the departure of one of the leading firms. The recommendations include a change to firm ownership rules.

Other proposals would result in audit firms disclosing the financial results of their work on statutory audits and directly related services on a comparable basis, while regulators and legislators would be encouraged to promote audit choice when developing and implementing policy on auditor liability arrangements.

The group also called for the profession to establish mechanisms to improve access by the incoming auditor to information relevant to the audit held by the outgoing auditor. It proposed that the UK Financial Reporting Council (FRC) provide independent guidance for audit committees and other market participants on considerations relevant to the use of firms from more than one audit network.

Initial reaction to the recommendations has been largely positive but some senior figures have warned that more work must now be done to ensure the proposals are followed through.

MPG member and the head of public interest markets at Mazars UK, David Herbinet,

described the recommendations as a “welcome first step in promoting a more level playing field for the selection of auditors of larger listed companies”. He added: “Increasing competition and choice is essential.”

BDO Stoy Hayward managing partner Jeremy Newman said moving forward on the proposals is a matter of urgency. “It is now a year since the Oxera Report was published and whilst there has been much debate there has been no tangible action taken to address the real issues recognised by the FRC and others. We need to see genuine change in the audit market and an unrelenting focus on creating the right conditions for change.”

As a way of increasing the capabilities of non-Big Four firms, the MPG said there should be a wider understanding of the possible effects on audit choice of changes to audit firm ownership rules. The group noted that it was a “complex” issue. “The European Commission has commissioned a study on ownership rules applying to audit firms and the consequences these rules have on audit market concentration. The study will report later this year,” the group observed.

Richard Bension, KPMG UK head of audit, said the firm particularly welcomes that recommendation but warned “substantial investment will be needed to give mid-tier firms the reach needed to support businesses that are global in nature”.

Moving the debate along

The MPG was formed in October 2006 to advise the FRC on the contentious issue of choice in the audit market. The main objectives of its recommendations are to make investment in the supply of audit services more feasible; to reduce the perceived risks to directors of selecting a non-Big Four firm; to improve the accountability of boards for their auditor selection decisions; to improve choice from within the Big Four; to reduce the risk of firms leaving the market without good reason; and to reduce uncertainty and disruption costs in the event of a firm leaving the market.

FRC chief executive and convenor of the MPG Paul Boyle has urged key parties in the market to respond to the suggestions. ■

COUNTRY SURVEY

Olson: PCAOB inspections can improve

The Public Company Accounting Oversight Board (PCAOB) will continue to focus on improving its audit inspection methodology over the next couple of years, according to its chairman, Mark Olson.

Olson said: “My background is bank supervision and bank examiners have been doing examinations of banks for over 100 years and you had a methodology that has been tested over time and developed over time that was pretty well thought through. In our case we started it from scratch.”

The PCAOB and its audit inspections regime were established under the Sarbanes-Oxley Act. The watchdog recently released its second year report on the implementation of its internal control standard, finding that there were a number of areas in which auditors could improve. As part of the emphasis on audit quality in its inspections, in 2006 the inspectors focused on efficiency in internal control audits. This will continue in 2007.

Speaking to *TA*, Olson said that Sarbanes-Oxley has been responsible for improving audit quality “noticeably” for a number of reasons. “I think that there has been a greater focus on the importance of external audit. I think the fact that we are now inspecting auditors means there is an important consistency in how audits are done,” he said.

Olson said the PCAOB will also evolve because of its international responsibilities to inspect firms that are located outside the US. Close to 800 PCAOB registrants are located in other countries, which can present issues for the inspection teams.

The PCAOB currently has an inspection complement of approximately 230 professionals, “which is about 20 or 25 less than we would like it to be”, Olson said. Echoing what PCAOB board member Charles Nie-meier told *TA* a year ago, Olson said it is “tough to recruit [inspection staff]” because it is a valued and specialised skill.

He added: “Also, once we hire people, we improve their marketability and they look elsewhere. That said, over a four-year period, we have about a 12 percent turnover rate which... is an acceptable number.” ■

(See US survey pages 15-18)

■ **AUDIT MARKET**

Number of companies audited by firm:
February 2007

Auditor	FTSE 100	FTSE 250	FTSE Small Cap	AIM
PwC	40	75	128	112
KPMG	23	57	110	167
Deloitte	19	64	97	116
E&Y	18	46	113	98
BDO Stoy Hayward	0	5	19	141
Grant Thornton	0	1	12	167
RSM Robson Rhodes	0	1	29	43
Begbies Chettle Agar	0	1	1	0
Baker Tilly	0	0	13	111
PKF	0	0	9	49

Source: MPG

Building an Arab empire

Talal Abu-Ghazaleh has built a professional services empire from scratch and devoted much of his life to developing the accountancy profession in the Middle East. He tells **Arvind Hickman** about life, business and the difficult journey along the way

Talal Abu-Ghazaleh believes that suffering is a blessing. The businessman, who leads one of the largest independent accountancy firms in the Middle East and has devoted much of his life to developing the Arab profession, is a classic example of how hard work and a positive attitude can overcome adversity.

Following the formation of Israel in 1948, the ten-year-old Palestinian and his affluent family were removed from their home in the port city of Jaffa and deported on a cargo ship to southern Lebanon.

"I had to live on bread and basic vegetables that we had to pick wild on the mountains," Abu-Ghazaleh recalls. "I had to walk from that village to the school two hours going and two hours back, every day, rain, summer, snow, whatever. It was one of my most beautiful experiences because it was excellent exercise, excellent time to meditate and to review my studies. I call this the blessing of suffering... I think what happened to me equipped me to go into my business and [helped me with] my professional struggle."

Abu-Ghazaleh achieved top marks at all levels of his education. He won a United Nations (UN) Relief and Work Agency scholarship to attend the American University of Beirut and completed a business degree with honours. In 1960, he was recruited by one of the largest Middle East accountancy firms and became a partner after five years. After 12 years, he said, he was "nominated to be the deputy chair and to take over from the chair".

Abu-Ghazaleh adds: "I made my acceptance of my appointment conditional on a work programme which was turned down and I was asked to leave. So I set up my firm on the same principles they refused. This helped in five years to become the largest and the leading accounting firm in the region."

Talal Abu-Ghazaleh & Co, now known as Talal Abu-Ghazaleh International (TAGI), began with five offices. Today, the firm focuses on small-and medium-sized entities and is part of a pan-Arabian conglomerate of businesses known as the Talal Abu-Ghazaleh Organisation. This group comprises 14 businesses that offer services such as accounting and professional services, legal, management

consulting, intellectual property, information technology, education, training, translation, recruitment, publication and distribution. The group now has more than 2,000 professionals across 60 offices in the Middle East and 150 affiliate offices worldwide. This year the group has recorded 98 percent growth.

Aside from running a successful business empire, Abu-Ghazaleh has devoted much of his time to improving the profession in the Arab world. In 1984, he formed the Arab Society of Certified Public Accountants, a professional body that qualifies accountants, translates international standards into Arabic and rolls out education programmes. Abu-Ghazaleh says the society is somewhat modelled on UK bodies. "We were lucky to have the understanding of the English profession to provide us with their curricula and their examination standards. We tailored our Arab qualifications along the same lines," he says.

"We are having great demand and great development in the field of professional competence in the Arab world. We are moving very positively on all fronts and all countries"

Talal Abu-Ghazaleh

Abu-Ghazaleh has also been a member of several international boards, including the International Chamber of Commerce, International Federation of Accountants council, UN Committee of Experts on Global Accounting Standards and the International Accounting Standards Committee. Recently, Abu-Ghazaleh was elected as the vice-chairman of the UN Global Compact – a global corporate social responsibility led by UN Secretary-General Ban Ki-moon.

Abu-Ghazaleh says the Arab profession is developing in the right direction: "We are having great demand and great development in the field of professional competence in the Arab world. We are moving very positively



Talal Abu-Ghazaleh

on all fronts and all countries."

However, he believes there is a lack of expertise in government departments, which means governments have been "lagging behind in the capabilities of their accountants and accounting systems". The situation is improving, though, according to Abu-Ghazaleh. "Now the governments are able to apportion the funds needed for capacity building in the government sector. That is why we are developing this accountancy technician programme and also we are conducting training programmes for staff on accounting for governmental organisations," he says.

The technician programme will be run in Arabic and Abu-Ghazaleh believes it will appeal to "those in industry and government who do not want a very highly qualified degree or qualification to become public accountants". He says it will be "offered to improve the standards in the accounting profession".

Abu-Ghazaleh tells *TA* his mission is to help the region develop professionally in spite of political instability: "Let us ignore the war, ignore the chaos, that's not our problem and it's not our business. We are in the business of developing capabilities and making this part of the world equal to any part of the world and in full harmony with any part of the world." ■