



Address by Paul M Koster - Chief Executive

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at the ICAEW Reception

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I am very happy to address you in sunny Dubai, albeit in these stormy times.

I have been told to limit my speech to ten minutes, so I cannot explore too much tonight the issues that are facing this wonderful (useful?) profession.

Auditors have been exposed to a lot of criticism over their role in the dotcom era and just when we thought, in regard to the recent events, we would be spared another bashing, the Satyam and Madoff debacles bring renewed scrutiny to the front pages. Where were the Auditors? This very direct question becomes more painful every time it surfaces.

“Reform follows public crisis – the saying goes, well with every new incident (public crisis) becomes deeper and more pervasive and the necessary reforms considered more profound. I think the profession represented by organisations like ICAEW should start an open and intense dialogue with their members andthe regulators. This dialogue should not be limited to or restricted in any sense, and should be guided by an awareness that the audit industry is at a critical juncture.



Financial markets only function when there is trust and confidence, a lack thereof has dire systemic consequences that we are witnessing now.

Auditors, credit rating agencies, lawyers and Boards all play a critical / pivotal role in protecting, maintaining and elevating the trust / confidence levels in the financial markets. We refer to that as the reputational intermediary function. All reputational intermediaries have failed in one way or another. No one escapes some form of blame – but it is exactly that failure that makes us face this singular historic moment in the Audit profession and, at other governance levels.

The dialogue I envisage is one - we as the DFSA, would very much like to participate in, with a constructive approach and tackling all angles of this deep crisis, its causes and possible solutions.

Some of the dialogue should focus on include:

- accounting standards setting process; even more interesting in this region with the AAOIFI (Accounting and Auditing Organisation for Islamic Financial Institutions) as another key player in standard setting (next to IASB). The primary focus should be how to speed up the process
- supervision of Auditors

- how to enhance supervision, allowing earlier detection of quality shortfalls in the audit process?

- how to co-ordinate cross-border supervision without making it too costly or unworkable?

- The audit standard setting process similar to the Accounting standard setting process with AAOIFI being involved as well.

To show our commitment to and keen interest in your profession I can tell you that the DFSA is in the process of joining IFIAR as a member. We firmly believe in the benefits of international co-operation and IFAC/IFIAR/IOSCO are essential in the context of that dialogue in which we are promoting.

Never let a crisis go to waste – if ever, this seems to be the moment to heed that message.

Let me end by making one more observation.

The dialogue that I was referring to will have to take place in a global setting simply because the markets have become so interrelated that solutions in isolation will be quite useless. This, however, is a challenge of enormous proportion.

Firstly, because all participants will have different agendas and expectations but also, although we share one world, we think differently. As so well described in Richard Nisbett's book, *The Geography of Thought: How Asians and Westerners Think Differently*. The Chinese, for instance, believe in constant change with things always moving back to some prior state (like the Dow Jones at 14,000?). They pay attention to a wide range of events. They think you cannot understand the part without understanding the whole. Westerners live in a simpler more deterministic world. They focus on salient objectives (like Enron!!) or people instead of the larger picture and they think they can control events because they know the rules that govern the behaviour of objects.

It shows clearly that any effort to seek reform and solutions will be one that needs clear focus and co-ordination, respecting each others different opinions and thoughts but still working towards that goal. A stronger profession with fewer incidents and enhanced TRUST and CONFIDENCE.

It will not be easy – but it will be worth it.