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Do ethics matter?

Recent events at Enron and WorldCom proved a topical case of bad business and questionable ethics. What lessons can companies learn?

Like many other global organisations, Enron was said to have a corporate culture almost evangelical in its conviction: it believed that what it was doing was not just right but good for the world. Wherever it went its executives would say that Enron brought wealth, peace and efficiency to poor people. Enron has always given generously to schools and has received environmental awards. Yet its huge financial success was built upon a house of cards which ultimately collapsed – a business model with off-balance sheet debt, management which did not fulfil its duties to stakeholders, board members who did not exercise appropriate oversight, insiders who took personal profits while forcing employees to hold shares which quickly became worthless, accounting policies which were not transparent and a regulatory system which failed to prevent the devastation caused by its bankruptcy. When the final analysis is complete, will the lessons and conclusions drawn be used to change the way corporations and their executives are instructed and called to account for their conduct?

Lessons to be learned

Companies' failure to act responsibly can have a drastic impact on the lives of many stakeholders – from employees and their families to shareholders and creditors.

Enron and WorldCom are just two companies whose 'bad business' has recently created a high-profile stir. Smaller companies, the backbone of the world economy, also play an important role in fostering a climate of ethical business practices.

Corporations that behave unethically suffer damage to their reputation and, more importantly, their bottom line. One problem is that too few companies are aware of the action they should take. Inaction or the failure to consider ethical positioning is likely to place an organisation at risk from further negative events over which they have little or no control. What can businesses do to avoid this?

Part of the solution, perhaps, lies in a written code of ethics that can be embedded into the daily experience of business and management activities to prevent exploitation or accusations of inappropriate activity. It is important for employees throughout the company to understand the value placed by management on strong ethical principles.

Is a written code enough?

While a written code can be effective, it has to be backed up by strong moral principles throughout the whole organisation and the board of directors must adhere to the principles and make sure that systems are in place to ensure compliance. Enron had a written code dictating its professional and ethical conduct, which, clearly, wasn't an overwhelming success. Furthermore, a written code can only go so far. What use is a set of guidelines in a company where absence of a sound business foundation is accompanied by a climate of greed?

The role of the board of directors and audit committees must be addressed. Boards of directors have a responsibility to shareholders and stakeholders and must be vigilant in understanding all company activities, in particular accounting issues, to ensure that company business is carried out in an informed and honest fashion. Moreover, audit committees need to be clear that auditors must be independent and, where the audit firm performs other work, understand its nature and possible implications to prevent nasty surprises in future.

Responsibility for the Enron affair cannot be laid at any one door. The company's management, auditors, banks, analysts, regulators and standard setters are among those who ultimately had a part to play. If businesses are to learn anything from recent events, it is that they must be prepared to accept a need for:

- Clear and unequivocal accounting and auditing standards
- Honesty from management and auditors, lawyers and other professional advisors
- Closer scrutiny of business practices by stakeholders and regulators.

New initiatives

The Enron case clearly validates the initiatives of bodies such as the International Federation of Accountants, which have been in development for several years. These include:

- Promulgation and adoption of international standards in auditing and accounting
- Strengthening the work of international auditing practices committees
- Adopting an international ethics code, including independence provisions.

In addition, if businesses are to avoid being tarred with the same brush as companies such as Enron it is important that professional bodies, governments, regulators and stakeholders work in partnership and that the highest standards of professionalism and integrity subsist between company management teams and those who prepare financial information.

Despite recent events, culture is shifting and only time will tell to what extent ethical reasoning will form an integral part of corporate structure so that it will be clearly recognised that 'good ethics is good business'.

For further information, please contact: Marilyn Pendergast, Urbach Kahn & Werlin Advisors, Inc. +1 518 449 3166

Duncan Smith/Gettyimages

The impact of the euro

The introduction of the euro in January 2002 heralded a significant new economic order. This article takes a look at the effects the euro is having on business.

The launch of euro currency in the 12-nation single currency area on 1 January 2002 can only be described as a triumph. Even those who feared chaos were surprised by just how smoothly everything went. A combination of reserved prior expectations, and an absence of technical glitches produced positive media reports around Europe that the changeover was a success.

As early as mid-January, the European Commission happily reported that 90% of transactions were being made with the new money, dispelling concerns that Europeans would protest at the withdrawal of their treasured national currencies – one point against the cynics who had long proclaimed that the project was doomed to failure.

Prices on the up?

The biggest fear was that the introduction of the euro would cause a rise in inflation if retailers across the region hiked up prices and concealed the rises within the redenomination. However, most retail prices had been quoted in euros as well as legacy currencies for three years prior to launch which went some way towards ensuring that these inflationary fears were not realised.

A degree of consumer discontent does exist and some research suggests that the prices charged by smaller businesses for, say, a cup of coffee or a hair cut are higher now than they were before the launch.

However, governments have taken steps to ensure the situation is monitored and the recent economic slowdown has prevented businesses from exercising their pricing power, assuaging consumer concerns and economists' fears over a spike in inflation.

Impact on SMEs

In terms of the impact of the euro on SMEs, the situation looks encouraging.

According to the Royal Bank of Scotland's Quarterly Economic Survey, two-thirds of respondents estimated that the euro has had no negative impact on their business. One of the most significant impacts of the euro launch on businesses was the amount of administration involved including modifying IT systems and changing over bank accounts.

THE INTRODUCTION OF THE EURO HAS CHANGED THE FINANCIAL LANDSCAPE FOR SMALL AND MEDIUM-SIZED BUSINESSES SUCH AS FUERTE HOTELS, WHICH IS REAPING THE BENEFITS

Outside the eurozone

The main effects of the launch may actually be felt outside the eurozone. In Sweden, talk of a referendum in 2003 on adopting the euro has sparked some appreciation of the krona which, it is believed, will strengthen when a referendum is announced. Furthermore, public opinion in Sweden is gradually moving towards a majority in favour of voting 'yes'.

In the UK, the situation has a different complexion as euro opinion polls have never shown more than a minority in favour of joining the single currency.

However, many euro aficionados believe that if the situation changed, euro momentum could quicken in the UK too.

One effect of the price transparency brought about by the introduction of the euro has been to highlight large price discrepancies between the UK and the Continent which may provide further impetus for the UK to join.

For further information, please contact your nearest UHY office.

A client's experience

Fuerte Hotels is a family business that has owned and managed a number of hotels in Andalusia since 1957. Before the euro came into effect, general manager José Luque had a number of concerns including:

- **Spain's adoption of the single currency would cut the possibility of devaluing the peseta, a monetary tool frequently used to profit the tourism industry**
- **Countries remaining outside the eurozone could use devaluation to improve their competitive advantage**
- **Salary comparisons between Spain, central and northern Europe could increase Spanish labour costs.**

José believes that the introduction of the euro has caused a change in monetary thinking in Spain and that physically using a different currency has proved a challenge – people are still converting to pesetas to communicate values more easily. As a result, he agrees with the decision to limit the period of co-existence between the peseta and the euro, enabling people to become immersed in the currency more quickly. In terms of negative effects of the euro on his business, José feels that these are short term and stem from the inconvenience of having to implement changes to IT and accounting systems which have created additional work and cost.

Generally speaking, however, the euro has bestowed several benefits upon Fuerte Hotels:

- **The inconvenience of monetary exchange has been removed**
- **Contracting with European tour operators is easier**
- **Guests can appreciate costs of goods/services much faster.**

With five presidents since December and citizens rioting in the streets in protest at not having access to their hard-earned cash, the Argentine economy is far from stable. What does the future hold?

The fall of Argentina

As far back as July 2001 the first rumblings of impending financial disaster were felt in Argentina. World markets quivered as the International Monetary Fund (IMF) released details of a potential default on repayments of Argentina's $180 billion debt.

Many believed that a financial collapse in Argentina would result in problems similar to those witnessed in the 1998 emerging markets crisis. In its International Capital Markets Report, the IMF revealed that: "Market participants widely believe that a crisis in Argentina would lead to much reduced capital flows to emerging markets ... thereby reducing their growth prospects."

Emergency measures were introduced by the government, including pay cuts for government ministers and civil servants, and later, $2.4 billion was appropriated from privately held pension funds to try and keep Argentina's ailing economy afloat. Economic Minister Domingo Cavallo promised that the pension money would be returned but, as yet, it has not been.

Since then, the situation has progressively worsened. Argentine citizens have been prevented from withdrawing more than $180 in cash per week from their bank accounts and long queues are often seen outside banks. Despite the restrictions, recent news reports have revealed that the banks' cash reserves are still seriously depleted.

These drastic measures have fuelled emotional demonstrations similar to those witnessed at the end of 2001 when economic austerity measures left some citizens without food and the country seemed to be on the verge of a political and economic abyss. This was the worst crisis to hit the country since the downfall of the military dictatorship in 1983 after the Falklands defeat.

Javier Pierini/Gettyimages

Up close and personal

Argentina is going through a serious crisis which is undermining the cornerstones of the nation. In the current situation the general interest is overwhelmed by the individual's interest in a scenario where the weakness of the government is a tool for incompetent sectors to take advantage of the situation.

On top of this cruel reality there is also the weak economy. This is already suffering a long recession and is on the verge of what analysts are already calling a depression. There are also the social and cultural consequences for a country which has the largest middle class in a South American country which has developed in an environment that provided real opportunities. We have to compare that with the present declining quality of living coupled with poor health services and education.

Argentina has never suffered the devastating wars or epidemics that ravaged other countries. Perhaps this is why there was never the need to urgently change the course of the nation. The lack of planning is evident in a country with no clear rules, disintegrating justice and soaring corruption.

Nowadays the debate is what country the Argentines want. The lack of representation and solutions has undermined the traditional parties. Although the success of this process is not guaranteed, it is needed if Argentina is to achieve a national identity and start being a credible country at the international level.

Argentina possesses many valuable human resources. It also boasts wonderful natural resources which surpass those of most other countries in the world. It has also developed a culture that is infinitely adaptable to dramatic changes.

In the economic field Argentina shifted 10 years ago from a convertible currency to a peso tied to the dollar. The recent devaluation with "pesification" of most of the assets and liabilities has been traumatic.

Although the previous model required more discipline and demanded some hard decisions, mainly cutting the budgetary deficit, it is commonly felt that the new model with a free floating exchange rate has not helped to stabilise the market or create conditions that foster economic activity.

In this context the private sector's profits have plunged while risks have increased because of the constantly changing rules.

Argentina is going through a deep crisis, but it also has a big opportunity. At this point Argentines know which politicians are needed to push forward the long awaited reforms and what kind of institutions are essential to the nation.

Argentines are descended from a synthesis of the immigration flows of the last century and only in recent years have they begun to discover their national identity. That is why it is not impossible to believe that growth of 8% a year is achievable over the next six or seven years. With commitment and the human and natural resources that they possess Argentines can turn this dream into reality.

For further information, please contact:
Roberto Macho, Macho y Asociados
+54 11 4815 8866.

Purchasing power

Streamlining purchasing activity can make your business much more effective

If businesses are to succeed in an increasingly competitive global marketplace it is important that they take every step to ensure that business expenditure is tightly controlled and business processes are streamlined.

One area in which growing numbers of companies are experiencing business benefits is procurement. When trying to get the best possible prices and levels of service for your business, procurement processes can be laborious. However, online marketplaces enable companies to manage their purchasing much more quickly and effectively, and can help cut costs by curbing maverick spending.

Maverick expenditure can cost thousands of pounds each year but, with online marketplaces, a combination of procurement expertise and advanced technology allows purchasing managers to liaise with a network of approved suppliers and get competitive quotes. Whether you need to buy office supplies, computer equipment or machinery, online marketplaces enable you to buy everything you need for your business at the click of a mouse!

Furthermore, some marketplaces allow you to purchase services such as insurance, pensions, finance and payroll solutions, document translation and legal services.

Another way in which you can save money for your business is to employ an 'outsider' to analyse and monitor your business expenditure so that you can quickly see where you are 'wasting' money and identify ways in which you can streamline procurement processes.

For further information, please contact:
Mike Berent, Centerprise Advisors, Inc.
Tel: +1 312 578 9600

An 'outsider' can help you to monitor unnecessary business expenditure effectively

A success story

Centerprise Advisors implemented a program, 'Synergy', to reduce overall costs and minimise risks across its seven subsidiary member firms. The aim of the program was to secure national contracts with suppliers that reward Centerprise for using them as the supply-needs source. At the end of the six-month strategic sourcing effort, Centerprise put in place contracts with suppliers that provided good quality, service and pricing.

Program process

Centerprise utilised an external consulting firm with strategic sourcing experience. One of the main deliverables it provided was the development of a projected total spend model. In order to build the model the consultants evaluated each member firm's invoice records and used the information to construct an historic spending component of the model. To accurately estimate potential savings, they met with suppliers to provide 'proof of concept' estimates of likely savings potential. Additionally, they benchmarked these estimates with other companies to validate supplier commitments. The data were used to establish the projected savings component of the model.

Program savings

The targeted savings that justified using Synergy were based on achieving cost reductions of at least $900,000 annually. In addition to the direct spending savings, Centerprise expected to receive volume incentive rebates of at least 0.5%.

Since completing negotiations and rolling out the Synergy program:

- Net annualised savings projections went from budget of $900K to $1.2 million.;
- The total number of suppliers was reduced from 300 to 14. As an example, they reduced office supply vendors from 41 to 1. The elimination of suppliers generated considerable savings in processing costs.

Centerprise is now in its fourth month under the new supplier arrangements, having reached 76% spending conversion to Synergy suppliers across the defined spending categories.

Actual saving for the first four months was approximately $218,000, which is on target to achieve the projected savings of $1.2 million by year end.

Jonnie Miles/Gettyimages

It's a small world

The global marketplace is a reality for many small and medium-sized businesses today. How can you market your business to make the most of international opportunities?

The starting point has to be your brand. Despite popular misconceptions, branding doesn't have to mean spending vast sums of money on a new logo; in fact, every business that has a name already has a brand that can be developed.

The key is to think about who you are and where you want your business to go. Your marketing material needs to communicate the quality of your products or services, promote any unique features about the way you do business, and convince customers to choose you over your competitors. A brand should also promote your business values in a way that staff can understand – as they will need to reflect your policies in their everyday dealings with customers.

Once you've determined your underlying values, choose a simple colour combination, a logo or a key phrase which you can use across your marketing material. Incidentally, it's worth checking that any phrases will translate properly in your target markets, as seemingly innocent words in one language can mean something altogether different in another.

Ask for help

The next step is to go to your existing business advisers and see what extra services they can offer to support your marketing efforts. For example, most accountancy qualifications now include some study of marketing techniques, so the role of a modern accountant goes far beyond simple tax and book-keeping advice. Your accountant will be interested in your business as a whole, including your long-term marketing plans. Accountants can help you to find new sources of funding and assist with the preparation of grant applications. They can advise on legal and regulatory matters, credit control and collection of late payments. They can help you to determine a pricing level which will cover your overheads and allow for a healthy profit, and they can advise you on import and export requirements across the world. The main benefit of using your existing business advisers is that you will be dealing with someone who already knows your business well but who also has experience of similar organisations and can offer valuable contacts and case studies to help you on your way.

Ryan McVay/Gettyimages

Some online resources for small businesses

Global: www.ginfo.net
Europe: www.esba-europe.org
South America: www.mercosur.org.uy
UK: www.sbs.gov.uk
US: www.chamberbiz.com

Networking is essential

Using your existing advisers is the first step on the road to effective networking, probably the single most powerful marketing tool available to a smaller business.

Word-of-mouth recommendations are the most effective source of new business, so it's vital to form alliances with other organisations that offer complementary products or services. The internet is a great place to start, offering many small business 'portals' and communities all over the world. Through these communities you can share best practice advice, establish mutual referral arrangements and find knowledgeable freelancers who can offer services at a fraction of the price you would have to pay for a specialist marketing agency.

Go online

Finally, when it comes to producing marketing material for an international audience, the internet wins hands down. With low start-up costs, instant updatability and 24-hour, world-wide access, there's no doubt that websites allow smaller businesses to compete on a truly global basis for the first time. For a cost-effective internet presence, follow these simple steps:

1. Make sure you are offering exactly what your customers want – do your homework.
2. Keep to a simple design, minimising the number of graphics to improve the speed of your site and making sure that customers can find the information they want in no more than three 'clicks' from your home page.
3. Shop around to find the right hosting service, considering the level of security you require. There are an increasing number of 'off-the-shelf' packages offering basic credit card encryption and invoicing services, so you shouldn't have to spend a fortune.
4. Include the address of your website on stationery, business cards and all of your paper publications.
5. Build-in a response form so that customers with a particular interest can let you know what they need, checking the results daily.
6. Use your networking contacts to set up mutual links to and from other business websites, saving on expensive banner advertising bills.
7. Update your website frequently. Regular changes help sustain customer interest.

For further information on how UHY can help you, please contact your local UHY office.

Chinese whispers

Everything about China, from its food to its politics is sparking interest around the world. China is being discussed, written about, debated and reviewed. Nothing, however, is hotter than speculation about China's economy.

China's growth rate in 2001 was 7.3%. Direct foreign investment in China has recently been as high as $40 billion a year. Exports in 2001 increased 11.4% from 2000, and imports increased 4.6% over the previous year. It is predicted that the growth rate for 2002 will be 7%.

China's recent entry into the World Trade Organisation (WTO) will facilitate more foreign investments and open up markets further in China. Beijing will host the 2008 Olympics and Shanghai is now preparing to bid for hosting the 2010 World Expo. The Chinese congress has already begun in earnest to revamp legislation to better advance the country's position in the world market. In October 2001, for example, a new law was enacted allowing the creation of civil, business and charitable trusts in China, paving the way for more flexible structuring of investments and property ownership.

Better investment climate

With revised business laws making it easier for foreign companies to own Chinese businesses, it is expected that there will be a wave of mergers and acquisitions. All these indicators show that the Chinese economy is on the road to robust growth.

It has been two decades since Deng Xiaoping instituted the reforms leading to today's momentum of economic growth and the changes are apparent on the streets of China and in the conversation of its business owners. Since being given the chance to be entrepreneurs instead of working in a collective or for the state, productivity and creativity has burgeoned.

With this rise in productivity, wealth and value are created on a massive scale, generating internal demands for more goods and services, precipitating even further growth.

Growth elements

However, to look at the economic growth of China solely by employment, production and export statistics is to miss perhaps the most significant growth elements: the advances of its technology, the improvement of the quality of its manufactured goods, the adoption of more effective and efficient management systems, and the changing of the attitudes of its people. Most Chinese business people now believe they must learn the management skills and systems of other countries to improve their operations and profitability.

During a recent visit to a major Chinese accounting firm in Shanghai, our colleagues were asked numerous questions on how an American accounting firm manages its system of rewards and promotion of its professionals, from identifying talent to how the partners share their profits.

Opening up business

To the average Chinese accountant, this was something brand new. Prior to 1999, almost all Chinese accounting firms were state owned. Then, the government mandated that all accounting firms were to be privatised. Virtually overnight, many of these accountants evolved from being civil servants to independent business owners. Many factories in China employ equipment and techniques, which are equal or superior to their competitors in other parts of the world. This technology, combined with a willing work force, results in a formidable production apparatus.

> ***Businesses all over the world are benefiting from China's booming economy***

Businesses from all parts of the world are trying to benefit from China's booming economy. Many have been doing business in China successfully for more than a decade. Many more are flocking there to gain a foothold. Some companies enter China as a competitive and efficient manufacturing base, allowing them to market the Chinese-made products in the more developed regions of the world.

One US company has been relocating certain manufacturing activities from the United States to its own designed and built factories in China for over 15 years and has done so profitably.

Moving manufacturing to China, however, is more often driven by the desire to enter new markets than a search for low-cost manufacturing. To many businesses, China is the biggest untapped market in the world.

Not everything is rosy, however, and not everyone is embracing the Chinese economic advances with enthusiasm. There is anxiety in many regions of the world that their manufacturing operations will lose out to the low-cost production facilities which China runs with its abundance of labour.

In some surrounding Asian countries, there are fears that China will come to dominate the region. However, Chinese economists are predicting that within China, unemployment will rise dramatically as inefficient state-owned enterprises are eliminated and the Chinese market is opened up to competitive private businesses. This, they caution, will lead to labour unrest and instability. Significant questions remain as to how the future will unfold.

For further information about how UHY's international network of professional advisers can help you do business in China contact: Peter Chen at Urbach Kahn and Werlin Advisors, Inc. +1 212 529 5130

Harnett Hanzon/Gettyimages

Who audits the auditors?

The Sarbanes Act in the US will tighten up legislation that applies to the US accounting industry, but what of its impact globally?

Kieth Brofsky/Gettyimages

At the time of writing, media giant AOL Time Warner has conceded that its accounts are being investigated by the US Justice Department. This follows in the wake of the Enron and WorldCom scandals. Corporate America is looking to its ethical standards and corporations everywhere are awaiting a tsunami of bad debt, collapsing shares and generally enhanced public mistrust of big business to finish flooding the coastlines of accounting and auditing.

While boards of directors are now aware of a need to be more vigilant, it is auditors and accountants who are having to look to their standards, accountability and independence. In Europe countries such as the UK might be excused for thinking that this was handled at the beginning of the 1990s following the collapse of Polly Peck and the Maxwell empire. But when America moves, the rest of the world must follow. New rules of behaviour are inevitable whether they come in the form of legislation or self-policed guidelines from bodies such as the International Federation of Accountants (IFAC) and the European Federation of Accountants (FEE).

Already, President George W Bush has signed new legislation, based largely on proposals put forward by Democratic senator Paul Sarbanes, that promises to stamp out fraud. This new law provides for the establishment of the Public Company Accounting Oversight Board which will oversee the accounting industry, setting "auditing, quality control, ethics, independence and other standards relating to the preparation of audit reports". It will examine audit firms on a regular basis and be empowered to investigate and discipline public company auditors, including imposing fines.

Auditors of public companies will no longer be allowed to carry out any of the following services for the same companies:

- Bookkeeping or other services related to the accounting records or financial statements of the audit client
- Financial information systems design and implementation
- Appraisal or valuation services, fairness opinions or contribution-in-kind reports
- Actuarial services
- Internal audit outsourcing services
- Management or human resources functions
- Broker or dealer, investment adviser, or investment banking services
- Legal services and expert services unrelated to the audit
- Any other service that the Board determines, by regulation, is impermissible.

The Act also requires that the lead partner and the concurring partners for the audit engagement be replaced every five years. Every public company audit will be required to include a concurring partner who has not been involved in the audit. The auditor will be hired by the audit committee of the board of directors of the company undergoing the audit, not by the company's management. The audit committee will set the audit fee. In addition, and here we begin to see how influential this will be, the Act will apply equally to foreign accounting firms auditing public US companies.

The major difference between the governance of auditing in the US and Europe is that while the US has rules, Europe adopts a more judgemental approach, deeming that rules are too mechanical to produce a true and fair audit opinion in every instance. Marilyn Pendergast is chair of the Ethics Committee of IFAC. She explains: "The Sarbanes Bill details things that would be specifically prohibited for listed companies in the US, whereas the approach just approved by the European Commission is principles based."

Continued on next page

FEE believes action is needed in:

- **Ensuring that the European Financial Reporting Advisory Group (EFRAG) makes a significant impact in providing a European contribution to international financial reporting standards (IFRS)**
- **Ensuring effective enforcement of IFRS in Europe by 2005**
- **Coordinating initiatives in the member states on the enforcement of financial reporting standards to ensure consistency in application decisions within Europe**
- **Agreeing on the FEE proposal to require the application of International Standards on Auditing in Europe by 2005**
- **Increasing efforts to support and influence the global standard setting process in auditing**
- **Speeding up national programmes of quality assurance in conformity with the EC's recommendation**
- **Stimulating the implementation of the European Commission's recommendations on statutory auditor independence**
- **Improving the current situation in the area of auditors' liability**
- **Defining at EU level harmonised conditions for organising the public oversight of the auditing profession in member states.**

The intention of IFAC, she says, is to have globally accepted accounting, auditing and ethical standards. "Our ethics code is very like the European one, principle based," She says. "In Europe, accounting standards are now well on their way under Sir David Tweedie's new International Accounting Standards Board (IASB). It's been a long process but I think those are clearly moving towards greater acceptance. Even in the US there has been some discussion within the SEC, on beginning to move closer to, or at least to allow registrants to use, international accepted accounting principals."

She says: "On the auditing side this new board that is set up by the Sarbanes Bill will have the authority to use auditing standards set up by the US. There are good auditing standards already, but IFAC has just reconstituted the International Auditing and Assurance Standards Board (IAASB) and they are working with an international adviser group with people all over the world. The European Commission has been a major player."

The FEE, Pendergast points out, is seeking to set a standard for all members to adopt and have that in place by 2005. She says: "Following on from that it makes sense to adopt the ethical standards on a global basis also. They would be guidelines and in some cases there would be regulators and they would adopt them as a requirement. It is self policing at this point. What is going on now is that network firms and networks of smaller firms are joining the IFAC's Forum of Firms to voluntarily adopt these international standards. And I think a logical follow on after that would be for legislators in the European Commission and elsewhere in the world to adopt those standards in their own countries."

But isn't there a conflict between the IASB's approach on principles and the Forum of Firms' initiative to bring international consistency to reporting standards? Pendergast agrees: "There is a real conflict on that right now and part of that is being magnified by the current accounting standards in the US. It's easy to say, 'Don't do this. Don't do that,' but that won't necessarily fix the problem. The principle-based approach is ultimately the best protection for the public." (See box on previous page).

The principle-based approach is ultimately the best protection

But does all this just apply to public companies? What about the SMEs, the small accounting and auditing firms? Pendergast believes everyone will be affected. "In mid-size businesses there are a lot of opportunities to provide services such as the internal audit, where the auditing firm does not believe that it can be independent. That could apply to a listed company or a smaller company."

There is a great deal to learn and more guidelines to apply but eventually international auditing will be more secure and probably more expensive.

For further information, please contact: Marilyn Pendergast, Urbach Kahn & Werlin Advisors, Inc. +1 518 449 3166

UHY member firms

For more information on UHY, in the first instance, please contact your local member firm.

ARGENTINA
Macho & Asociados
+54 11 4815 8866

AUSTRALIA
Haines Norton, Adelaide
+61 8 8110 0999

Haines Norton, Brisbane
+61 7 3229 1944

Haines Norton, Melbourne
+61 3 9629 4700

Haines Norton, Perth
+61 8 9444 3400

Haines Norton, Sydney
+61 2 9299 3844

AUSTRIA
Burger, Pálffy & Schlager
+43 1 505 48 01

BELGIUM
SFC Group
+32 2 735 43 25

CANADA
Victor & Gold, Montréal
+1 514 282 1836

Goldfarb, Shulman, Patel & Co, Toronto
+1 416 226 6800

LDMB Chartered Accountants Vancover
+1 604 534 3004

CHANNEL ISLANDS
The Louvre Trust Company Ltd
+44 1481 727249

CHILE
Benitez y Cia Ltda
+56 2 2518278

CHINA
Tai Kong & Co Hong Kong
+852 2892 2800

Jiwei CPA Ltd Tianjin
+86 22 2314 2273

CYPRUS
Antonis Kassapis & Company
+357 2 379210

CZECH REPUBLIC
Auditor s.r.o.
+420 2 2480 0411

DENMARK
INFO:REVISION A/S, Copenhagen
+45 39 53 50 00

DOMINICAN REPUBLIC
Hahn Ceara & Asociados
+1 809 581 9100

FRANCE
GVA
+33 1 45 00 76 00

GERMANY
Lauer & Partner, Berlin
+49 30 22 65 93-0

Dr Leyh, Dr Kossow & Dr Ott, Cologne
+49 2204 20 09-0

Johlke, Niethammer & Partner, Hamburg
+49 40 33 44 6-0

INDIA
Chandabhoy & Jassoobhoy
+91 22 4981516

IRELAND
O'Connor, Leddy & Holmes
+353 1 496 1444

ISRAEL
Shiff-Hazenfratz & Co
+972 3 5618188

ITALY
Fidalta
+39 02 3451508

JAPAN
Nakamoto & Company
+81 3 3234 0396

KOREA
Je Won & Co
+82 2 518 8792

KUWAIT
Al-Fouz International Audit Bureau
+965 2433142

LUXEMBOURG
Fiduciaire Fibetrust
+352 45 45 49 1

MALAYSIA
UHY Diong
+60 7 222 2828

MALTA
Pace, Galea, Musù & Co
+356 2141 2758

MEXICO
GE ® Glassman Esquivel y Cía
+52 5 566 1888

NETHERLANDS
Govers Accountants/ Consultants
+31 40 2504504

NORWAY
FMØ Revisjon DA
+47 23 20 49 00

PERU
Sandoval Aliaga Contadores Públicos S.C.
+51 1 422 3884

PHILIPPINES
Lopez Fabian and Co.
+63 2 892 1170

POLAND
Biuro Audytorskie Sadren Sp. Z.o.o.
+48 22 6217216

PORTUGAL
A Paredes, A Oliveira e M Branco, SROC
+351 21 7827510

RUSSIA
NP Consult, Moscow
+7 095 95 44 726

Atomic Audit, Obninsk
+7 08439 40440

SINGAPORE
Lee Seng Chan & Co
+65 395 5100

UHY Diong
+65 235 1633

SLOVAKIA
Auditor Bratislava s.r.o.
+421 7 544 14 660

SLOVENIA
Constantia MT&D d.o.o.
+386 1 437 6162

SOUTH AFRICA
R A Hellmann & Co
+27 11 447 8447

SPAIN
Fay & Co
+34 91 426 07 23

SWEDEN
INFO:REVISION A/S
+45 39 53 50 00

SWITZERLAND
Balmer-Etienne
+41 41 228 11 11

TAIWAN
L & C Company
+886 2 2391-5555

TURKEY
Uzman YMM ve Denetim AS
+90 212 275 63 83

UAE
UHY Saxena & Associates
+971 4 3517007

UNITED KINGDOM
Hacker Young
+44 20 7216 4600

USA
Follmer Rudzewicz Advisors, Inc., Michigan
+1 810 254 1040

Grace & Company Advisors, Inc., Missouri
+1 314 615 1200

Mann Frankfort Stein & Lipp Advisors, Inc., Texas
+1 713 960 1706

Simione Scillia Larrow & Dowling Advisors Inc. Connecticut
+1 203 777 1099

Urbach Kahn & Werlin Advisors, Inc., New York, Washington DC, California
+1 212 529 5130

Executive office: UHY, St Alphage House, 2 Fore Street, London EC2Y 5DH, United Kingdom
phone: +44 20 7216 4612 ● fax: +44 20 7628 3069 ● e-mail: info@uhy.com ● website: www.uhy.com