

***CONFLICTS OF INTEREST  
IN  
ACCOUNTING AND AUDITING***

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# *Introduction*

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**A free and fair market economy that encourages investment and competition will never exist unless there is a system in place with adequate checks and balances that provide reasonable assurance to the public that information is properly presented. Markets respond to actual or perceived risk and capital has a natural tendency to flow toward havens which are least risk adverse either perceived or real.**

# Financial Integrity

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- Financial integrity is dependent upon a system that enhances transparency and accountability and thereby will strengthen investor confidence.

# The three critical components for capital markets protection

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**Government**

**Business**

**Auditor**

# The Regulation of the Auditor

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- Government regulation
- Self-regulation
- Quasi government and self-regulation
- Independent private regulation

# Checks and balances

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- The Independent Auditor
- Audit Committee
- Government regulation
- Investors
- Media

# The Level of Prevention

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- Conflicts of interest should be minimized in the system to provide reliability
- However, the level of effort to minimize conflicts should not unduly burden the efficient operation of business.

# *Conflicts/Collusion/Lack of Independence*

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- Management/board
- Auditor/management
- Audit committee/management
- Audit committee/external auditor
- Controlling investor/management
- Internal audit/external audit
- Investment banker/management

# Conflicting Services

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- External and Internal Auditor
- Audit services and consulting services
- Former auditors in positions of management

# Regional Issues

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- Conflicts of interest within the region also include bribery and corruption of government officials.
- The large governmental holdings of state enterprises creates a unique issue related to conflicts.

# Regional differences

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- In free market economies company growth is tied to markets, management, capitalization and credit capacity.
- In transition countries company progress is often obtained also by government permission. Markets, management, capitalization and credit capacity are still underdeveloped.

# The consequence

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- Conflicts between company, government and government officials is a regional issue.

# Proper Government Mix

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- Historically government has been involved in:
  - Regulation
  - Planning
  - State Ownership
  - Industrial Policy
  - Fiscal Management
  - Monetary Policy

# Meeting in the Middle?

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- Former centrally planned economies have been moving away from government intervention, while
- After Enron/Andersen there is pressure for more government intervention in free markets
- Where is the middle? And is it the same middle for every country?
- Should we be concerned with risk and not with cloning systems?

# SEEPAD

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- Establish regional policy for members
- Publish regional policies
- Publish associations in full compliance
- IFAC compliance
- IFRS compliance
- Effort to exceed existing standards
- Establish quality control of auditors

# Regional Challenges

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- Economic reconstruction
- Regional stability
- Regional communication
- Financial incentives- particularly credit facilities
- Proper balance of control between government and company