

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

**INTERNATIONAL
ACCOUNTING and
REPORTING ISSUES**

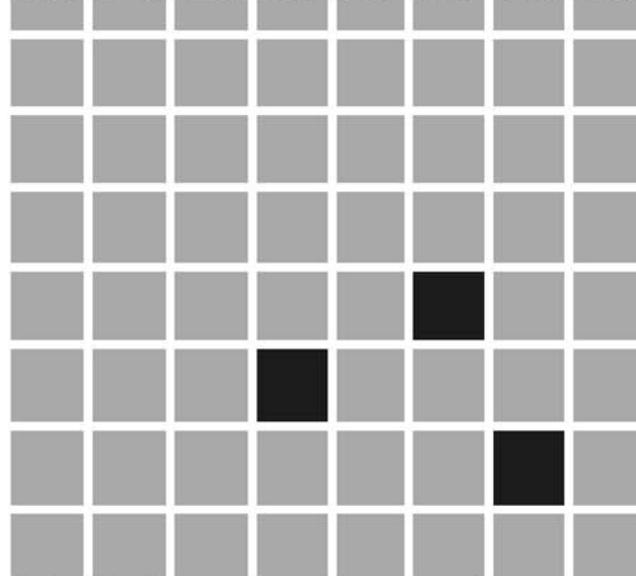
2004 Review



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Geneva

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Report by the Secretariat of the
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FOREWORD

For over two decades, the United Nations has been contributing to the global debate on corporate transparency and disclosure issues through the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR), which is serviced by UNCTAD. The twenty-first session of ISAR, which was held in Geneva from 27 to 29 October 2004, was its first session since UNCTAD XI, which took place in São Paulo, Brazil, in June 2004.

The outcomes of UNCTAD XI - namely, the Spirit of São Paulo and the São Paulo Consensus – emphasized the need for greater coherence between international processes on the one hand and the development strategies and policies of developing countries on the other hand. In particular, they stressed the central role of investment and the need to create an enabling environment for the facilitation of sustained investment flows to developing countries and countries with economies in transition and for deriving greater benefits from those investments. Accounting and reporting constitute a fundamental part of such an environment because sound and high-quality corporate reporting is essential for attracting and protecting investors, managing risks and returns and reducing financial volatility, enhancing accountability and ultimately enabling efficient allocation and use of economic resources.

Over the last two decades, we have witnessed a continuous trend towards the global harmonization of accounting and auditing standards, including those in the area of education and qualifications for professional accountants. The increasing pace of globalization of the world economy and the internationalization of investment flows have no doubt contributed to this process. There is a growing consensus that the application of a common set of global standards on corporate reporting will contribute to the reliability and comparability of financial information across markets and will facilitate international investment flows.

Given the growing complexity of business operations and the unfortunate series of corporate collapses that dominated the headlines in the last couple of years, the call for more reliable and relevant corporate reporting has never been louder. In recent years, financial, environmental and social scandals have raised the public's awareness of the fact that not all enterprises are willing or able to contribute positively to society's sustainable goals. At the 1999 World Economic Forum meeting in Davos, the United Nations Secretary-General, Kofi Annan, argued that economic globalization was at risk unless companies and other organs of society committed themselves to universal principles regarding human and labour rights, environmental protection and the rule of law. This commitment came to be embodied in the United Nations Global Compact and it provides a useful framework for the integration of ISAR's work on corporate transparency with the new mandate of UNCTAD in the area of corporate responsibility.

This volume presents the deliberations of the twenty-first session of ISAR. It addresses the comparability and relevance of existing indicators on corporate social responsibility reporting. It also discusses the implementation status of corporate governance disclosures. Contained in this volume are also studies and articles on the practical implementation challenges of international accounting and auditing standards.

Given the growing interest in corporate governance and transparency among policy makers, standard-setters, educators and the general public, I am confident that many readers will find this publication to be a useful source of timely information.

A handwritten signature in black ink, appearing to read 'Carlos Fortin'. The signature is fluid and cursive, with a prominent 'C' and 'F'.

Carlos Fortin
Officer-in-Charge of UNCTAD
Geneva, December 2004

EXECUTIVE SUMMARY

This volume of the *Review of International Accounting and Reporting Issues* contains the proceedings of the twenty-first session of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR), which took place in Geneva from 27 to 29 October 2004. The session deliberated on two main agenda items: comparability and relevance of existing indicators on corporate responsibility reporting; and the implementation status of corporate governance disclosures. Summaries of the Group's deliberations on these agenda items and the related background papers are presented in chapters I and II respectively.

The first chapter provides an overview of major existing initiatives and regulations on corporate social responsibility (CSR) indicators and outlines the main issues raised by the examination of the comparability and relevance of those indicators. In particular, it discusses whether the comparability and relevance of CSR indicators could be improved by focusing on a limited number of fundamental common indicators, or "core indicators". The second chapter highlights developments in corporate governance disclosures that occurred after the twentieth session of ISAR and discusses challenges in implementing good corporate governance disclosure practices. In particular, it provides an overview of the main international initiatives in the area of corporate governance disclosures, including increasing trends towards convergence in the area of corporate governance disclosures, and discusses the status of implementation of good practices of corporate governance disclosures at the company level. The role of corporate governance disclosures in adding sustainable shareholder value is also addressed.

In the light of the unprecedented transition to International Financial Reporting Standards (IFRS) that many listed enterprises will be undertaking, particularly in the European Union, the secretariat organized a workshop on 26 October 2004, on the eve of the twenty-first session of ISAR, to discuss the implementation challenges of IFRS. Several high-ranking experts on these issues presented their views during the panel presentations. The World Bank granted us permission to publish in this volume its study on the implementation of international accounting and auditing standards on which their expert based his presentation at the workshop. This study addresses challenges to the successful implementation of international accounting and auditing standards which have been observed by the World Bank when carrying out the Report on the Observance of Standards and Codes (ROSC) accounting and auditing assessments. It highlights the lack of a strong institutional and regulatory framework as a critical challenge in the implementation of international financial reporting and auditing standards. This study is contained in the third chapter of this volume. Also the International Federation of Accountants (IFAC) granted us permission to publish in this volume a study entitled "Challenges and Successes in Implementing International Standards: Achieving Convergence to IFRSs and

ISAs" which it published at the end of 2004. The study addresses a number of questions, including the following: How do we move towards international convergence? What obstacles need to be overcome? What systems and processes can help facilitate international convergence? What roles can the IASB and IAASB and national standard-setters play in ensuring that international convergence is approached in a systematic and, where possible, consistent way? That study is presented in the fourth chapter of this volume. The last chapter contains articles that address selected issues on corporate transparency.

INTRODUCTION

The twenty-first session of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR) was held at the Palais des Nations in Geneva from 27 to 29 October 2004. It was attended by 190 participants from 57 member States. In accordance with the proposal made by the Group of Experts at its twentieth session, which was subsequently approved by the eighth session of the Commission on Investment, Technology and Related Financial Issues, the Group of Experts deliberated on two main agenda items.

The first item was a review of the comparability and relevance of existing indicators on corporate social responsibility. In its deliberations on this item, the Group of Experts addressed the need for social reporting with a view to making it more useful for decision-making, achieving comparability, and reducing the costs of corporate responsibility reports; methodology to improve the comparability and relevance of such reports; the possible target audience of such reports; the most important and comparable social topics to report on and criteria for their selection based on common needs of users of such reports; and the need to include topics that reflect the developmental dimension of corporate activities. The Group considered how social reporting could supplement annual corporate reporting and how it could provide a broader view of an enterprise and its impact on society. The session also noted that the eleventh quadrennial conference of UNCTAD had provided a broader context within which the issue of corporate responsibility could be addressed. The Group of Experts concluded its discussions on this agenda item by agreeing to continue its work in the area of social reporting with a view to developing guidance on voluntary disclosure.

The second main agenda item was a review of the implementation status of corporate governance disclosures and the role of such disclosures in adding sustainable value. A panel of experts provided updates on major developments in the area of corporate governance disclosures. Also, the Group of Experts deliberated on the findings of a survey that was conducted to assess, at the company level, the extent of implementation of the corporate governance disclosure elements that ISAR identified at its nineteenth session. During the

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