

PAO GLOBAL DEVELOPMENT REPORT



**MOSAIC: THE MEMORANDUM OF
UNDERSTANDING TO STRENGTHEN
ACCOUNTANCY AND IMPROVE
COLLABORATION**

The creation of the *Professional Accountancy Organization Global Development Report* has been jointly financed by the African Development Bank, the Asian Development Bank, the Inter-American Development Bank, and the World Bank and created in consultation with the Memorandum of Understanding to Strengthen Accountancy and Improve Collaboration (MOSAIC) Steering Committee, members, observers, and other interested organizations. Coordination of consultant inputs into this report was coordinated by the interim MOSAIC Secretariat, which is hosted by the International Federation of Accountants. The Professional Accountancy Organization Global Development Report does not necessarily represent the official position of any of the above-mentioned supporting organizations on any of the matters included therein.

When professional
accountancy
organizations function
properly, they hold
the power to support
the production of
high-quality financial
information, contributing
to public and private
sector development,
economic growth, and
the aid effectiveness
agenda.

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ISBN: 978-1-60815-145-5

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Table of Contents

EXECUTIVE SUMMARY	6
The Ten Key Areas of Focus for MOSAIC PAO Development Activities	7
OUR OBJECTIVES	10
OUR APPROACH	12
A GLOBAL VIEW OF PAO DEVELOPMENT	16
The Role of PAOs in National Financial Infrastructure	16
Strong PAOs = Strong Partner Countries	17
How Can We Help PAOs Reach Their Full Potential?	17
PAO DEVELOPMENT ACROSS THE REGIONS	22
AFRICA REGION	24
Understanding the Regional Context	24
Viewing Africa Region PAO Development	26
Looking Ahead: Priority Areas for PAO Development in the Africa Region	30
A Closer Look at PAO Development: The Institut des Reviseurs Comptables	32
ASIA – PACIFIC REGION	36
Understanding the Regional Context	36
Viewing Asia-Pacific Region PAO Development	37
Looking Ahead: Priority Areas for PAO Development in the Asia-Pacific Region	41
A Closer Look at PAO Development: The Mongolian Institute of Certified Public Accountants	43
LATIN AMERICA AND THE CARIBBEAN	46
Understanding the Regional Context	46
Viewing Latin American and Caribbean Region PAO Development	48
Looking Ahead: Priority Areas for PAO Development in the LAC Region	52
A Closer Look at PAO Development: Instituto Guatemalteco de Contadores Públicos y Auditores	54
EUROPE AND CENTRAL ASIA	58
Understanding the Regional Context	58
Viewing ECA Region PAO Development	60
Looking Ahead: Priority Areas for PAO Development in the ECA Region	65
A Closer Look at PAO Development: The Georgian Federation of Professional Accountants and Auditors	67
APPENDIX: CONSULTANT BIOGRAPHIES	72

- ***PAOs in the LAC region need additional support to better contribute to public financial management issues.***

The key to transparency and accountability depends on the availability of reliable and accurate financial information. Although PAOs can contribute to public sector entities with training and advice on internal controls and financial reporting, their lack of resources is a constraint to more active participation. Support for PAOs in understanding their role in supporting public financial management (PFM), engaging in dialogue with government stakeholders (e.g., Ministries of Finance and Auditor Generals), and orienting their activities, including education and training, to include PFM may greatly enhance their ability to further PFM in their respective countries.

- ***The CReCER initiative has had a strong impact in furthering regional PAO and accountancy development in line with international standards and best practices.***

Donor support for regional activities like CReCER have raised awareness and engagement among policymakers regarding the importance of PAO and accountancy development to national and regional economic growth. In turn, CReCER activities have been a catalyst for progress and change within the region.

- ***Regional organizations can have a strong role in furthering PAO and accountancy development.***

Additional technical support and resources are needed to facilitate these organizations' efforts to strengthen structure and functions, provide needed services, and maintain sufficient capacity to meet the needs of the region.

A CLOSER LOOK AT PAO DEVELOPMENT: INSTITUTO GUATEMALTECO DE CONTADORES PÚBLICOS Y AUDITORES

The Guatemalan Institute of Public Accountants and Auditors (Instituto Guatemalteco de Contadores Públicos y Auditores, or IGCPA) is Guatemala's national-level organization representing the accountancy profession. Created in November 1968, IGCPA is

legally recognized by the Guatemalan government as one of the institutions that represent the accounting and auditing profession in the country. IGCPA maintains membership in IFAC.

In addition to IGCPA, Guatemala also has the Colegio de Contadores Públicos y Auditores de Guatemala (CCPAG), which was created in April 2005 and is registered and recognized by law. CCPAG has shown an interest in IFAC membership and is working to grow stronger in accordance with the IFAC SMOs.

Cooperation between these two organizations is strong and can be seen in their submission of a joint SMO Action Plan that recognizes the roles and responsibilities of both organizations in strengthening the Guatemalan accountancy profession.

LEGAL AND REGULATORY FOUNDATION—THE PAO-ENABLING ENVIRONMENT

The legal and regulatory framework in Guatemala has allowed establishment of the IGCPA as a national professional accountancy organization (PAO). The government formally recognized the ByLaws of the Institute in November 1968. CCPAG was founded more recently and gained government recognition as a PAO in April 2005.

In accordance with the Professional Association Act (issued in July 1991), the practice of statutory audit is restricted to persons who are licensed as professional auditors. However, the law makes no reference to the operation of systems of certification, quality assurance, and investigation and discipline of accountancy professionals. CCPAG holds legal authority to set standards for both public and private sector accounting and auditing for Guatemala. This authority allows the PAO to promulgate the IAASB pronouncements established by publishing or communicating the standards to the public. The legal and regulatory framework permits collaboration between PAOs and accountancy standard setters.

PAO ORGANIZATIONAL CAPACITY

IGCPA currently maintains a functioning governance and operating structure. The organization is governed by a Board of Directors comprised of seven directors (president, vice president, secretary, treasurer, and three other directors). Additionally, there is one alternate director and two internal auditors. The members of the Board of Directors are not remunerated. Moreover, the work performed by members of the Tribunal Honor and the different

Cooperation between the two Guatemalan PAOs is strong and can be seen in their submission of a joint SMO Action Plan that recognizes the roles and responsibilities of both organizations in strengthening the Guatemalan accountancy profession.

committees—Evaluation and Advisory—is also conducted on a volunteer basis. IGCPA maintains an operational system of internal control and financial reporting and its annual financial statements are audited by an independent external auditor.

PROFESSIONAL EDUCATION, ASSESSMENT, PRACTICAL EXPERIENCE, AND CONTINUING PROFESSIONAL DEVELOPMENT

In order to be admitted as a member of IGCPA, a candidate must complete a program of professional accountancy education. Membership in the organization is tiered and offers the option of completing the certification process after achievement of recognition as a bookkeeper or continuing on to become a Certified Public Accountant (CPA). Students are educated in basic accountancy during post-secondary education and begin work as an accountant (bookkeeper or “Perito Contador”).

In order to become a CPA, students must then attain a university degree in the area of accountancy and fulfill a practical experience requirement of a minimum of two years prior to college graduation (depending on the university in question). Once a candidate has completed the required practical experience and received a degree in accounting, the professional licensing law then requires the new professional register with the CCPAG.

Enrollment and registration as a CPA does not require passage of a professional assessment (i.e., exam). Presently, without completion of a professional assessment, the only manner IGCPA has for determining professional qualifications is by review of a university thesis. However, there are plans to introduce a final assessment of professional capabilities and competence after university degree achievement and completion of a thesis.

Although there are some informal requirements for practical experience as required by universities, there are plans to introduce a more formal practical experience through professional certification.

One of the key areas for focus noted in the joint SMO Action Plan is their dialogue and efforts to raise awareness of the importance of professional assessment.

IGCPA maintains responsibility for CPD requirements applicable to its members. As such, the organization facilitates achievement of education and training through the provision of conferences, seminars and an annual congress. These requirements are currently voluntary; however, IGCPA monitors the number of

hours achieved and outlines a suggested minimum number of CPD hours for members. IGCPA recognizes the need to strengthen entry, assessment, and practical experience as well as CPD requirements in line with IESs.

SUPPORT FOR ADOPTION AND IMPLEMENTATION OF CODE OF ETHICS FOR PROFESSIONAL ACCOUNTANTS

IGCPA maintains its own Code of Ethics, which is based upon the 2006 version of the IESBA Code. The IGCPA code deviates from the most recent version of the IESBA Code of Ethics. IGCPA plans to compare its code with that of the IESBA and analyze the differences. If possible, attempts will be made to adopt the most recent version of the IESBA Code of Ethics for all professionals. The IGCPA code currently covers professional accountants in the practice, business, and the public sector.

SUPPORT FOR ADOPTION AND IMPLEMENTATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

In July 2002, IGCPA adopted the conceptual framework of International Financial Reporting Standards (IFRS), and interpretations issued by the IFRS Foundation, as the generally accepted accounting principles in Guatemala. In 2004, an updated IGCPA resolution adopted the 2004 version of IFRSs in an effort to enhance international convergence. In 2007, IGCPA and the CCPAG adopted the latest version available of IFRSs translated into Spanish language. In June 2010, CCPAG and the IGCPA adopted IFRS for SMEs for entities that do not apply full IFRS.

IGCPA has provided conferences and workshops with IFRS in order to disseminate and communicate the use and application of these rules. In the coming months, IGCPA indicates that it will focus on further implementation of IFRS through the development of training, outreach, and continuing education as well as to continue monitoring the standards for modifications and amendments.

SUPPORT FOR ADOPTION AND IMPLEMENTATION OF INTERNATIONAL STANDARDS ON AUDITING

The ISAs issued by the IAASB have only recently been adopted by CCPAG and the IGCPA. In spite of this, there is no technical body with the authority to verify compliance with these standards.

CCPAG published a resolution on the adoption of ISAs, which took effect for all audits conducted from 2008 onward. The resolution fully adopted ISAs and stipulated that in the future all new and

revised standards would be adopted in Guatemala immediately on the date they are promulgated by the IAASB.

The Superintendence of Banks (the entity supervising the financial system) has additional requirements for the practice of audits of entities within the Guatemalan financial system. In addition, the Superintendence maintains a register of audit firms that are permitted to offer their services to financial institutions. This record is reviewed and updated bi-annually to ensure compliance. While this registration relates to audit firms and their partners, in accordance with the applicable regulations, it does not provide a system of quality assurance.

Through the joint SMO Action Plan, IGCPA has noted its commitment to create a process to promote awareness among professionals in public practice regarding changes to IAASB standards through emails, newsletters, and IGCPA website. It also maintains ongoing efforts to provide training seminars on IAASB standards for professional accountants. For implementation to be effective, accountancy professionals will need to have timely access to new accounting and auditing standards in addition to quality education to ensure the requirements are well understood and applied correctly.

SYSTEM OF INVESTIGATION AND DISCIPLINE

IGCPA maintains a program for investigating and disciplining members for misconduct, including breaches of professional standards and rules. This responsibility is shared with the Accountant General, Financial Sector Authority and Banking Authority. The Law on Compulsory Professional Associations (Decree No. 72-2001) establishes the principle of investigation and discipline and assigns this function to the Court of Honor for each professional organization. This stipulates that the Court of Honor (in each respective professional association) should punish persons who have: a) demonstrated a lack of ethics, b) affected the honor and prestige of the profession, and c) shown notorious inefficiency, incompetence, negligence, incompetence, malpractice, or morally wrong behavior in the exercise of the profession.

Under the law, the exercise of investigation and discipline by the organization's Honor Court must be conducted in accordance with the organization's due process and conclude with penalties and/or rehabilitation.

In Guatemala, professional misconduct is categorized as a criminal activity. Imposed sanctions can include the loss or restriction of

practicing rights and financial penalties. At the moment, draft regulations envision the sanction for a breach of standards to include a monetary fine between USD\$268 and USD\$10,526. The PAO is not obligated to report breaches of professional or ethical standards to outside bodies.

The approach IGCPA uses to initiate investigation and discipline proceedings are both information and complaint based. Presently, one deficiency is the lack of required authority to permit IGCPA personnel to carry out an effective investigation. Additional authority to create a competent committee, to control quality and effectiveness of the work of members to ensure that the audit firms and auditors are subject to sanctions and to certify compliance of practitioners, is needed in order for the investigation and disciplinary system to function properly.

IGCPA recognizes the lack of adequate financial and other resources to enable timely investigative and disciplinary action.

QUALITY ASSURANCE

Guatemala currently lacks a comprehensive system of quality assurance for audit professionals and has not yet established an independent audit regulator to oversee the profession. Additional support is needed to supplement the efforts of IGCPA and CCPAG in developing a system for ensuring the quality of audits that takes into consideration the Guatemalan country context. The plan must include start and completion dates; appoint agencies and individuals responsible for the system; and include a discussion on the resources required to implement the plan.

SUPPORT FOR ADOPTION AND IMPLEMENTATION OF INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS

IPSAS have not been implemented yet by the government of Guatemala. Currently, IGCPA is collaborating closely with the Ministry of Finance (MoF) on this project and the current plan available from these collaborative efforts describes the transitional steps for the implementation of IPSAS in government accounting. The MoF estimates it will take a period of three years to complete this transition, allowing IPSAS implementation to be completed in 2013 and take effect in 2014. The IGCPA is committed to using its best efforts to encourage public sector institutions to adopt IPSAS and to lend support and assistance to the process of implementation (e.g., provision of training for relevant personnel). Additional support to IGCPA in furthering implementation of

IPSAS in this area may greatly enhance the resulting level of application in practice.

SUPPORT TO PUBLIC FINANCIAL MANAGEMENT

In conducting this review, the collaboration between IGCPA and CCPAG in the area of PFM was not clear. There were substantial efforts in the area of IPSAS adoption and implementation but additional assistance to the IGCPA and CCPAG in supporting public financial management may greatly aid in Guatemala's development of this important sector.

For more information on MOSAIC, please visit www.ifac.org/MOSAIC or email MOSAIC@ifac.org.

