

Driving Quality and Development: Middle East and North Africa (MENA) Region SMO Workshop—January 2017

Opportunities, lessons learned, and ongoing challenges in the adoption and implementation of international standards and best practices across the Middle East and North Africa (MENA) region were recently explored during an [IFAC Statements of Membership Obligations \(SMOs\)](#) workshop in Sweimeh, Jordan, on January 21, 2017. The commonalities identified highlighted the importance of, and clear opportunities for, regional collaboration to drive solutions that benefit current and future auditors and accountants.

Participants from over 25 national, regional, and global organizations discussed:

- using best endeavors to adopt international standards;
- effective implementation of quality assurance and investigative and disciplinary mechanisms; and
- developing competencies and enhancing the credibility of the accountancy profession.

The main discussion points and conclusions from the workshop are summarized below and may be helpful to individuals and organizations working to strengthen professional accountancy organizations (PAOs) throughout the MENA region and globally.

Using Best Endeavors to Adopt International Standards

During discussions on adoption and implementation challenges for International Financial Reporting Standards (IFRS) and International Public Sector Accounting Standards™ (IPSAS™) it became clear that challenges stem from:

- fragmented and outdated legal frameworks;
- a lack of legal mandate for standards adoption and enforcement;
- difficulties aligning national and international standards; and
- a shortage of unified and timely translations.

Distinct Challenges for IFRS Adoption

There is no legal definition for small- and medium-sized entities (SMEs) throughout the MENA region. This often means that IFRS for SMEs has not been adopted. The majority of businesses in the region are SMEs, and it is costly and difficult for these companies to comply with the full IFRS. There is therefore a clear need to consider the adoption of IFRS for SMEs in addition to enhancing understanding of the IFRS.

IFRS Adoption Solutions

Solutions for IFRS adoption and implementation include:

- engaging with regulators, governments, and the International Accounting Standards Board (IASB) to promote the need for IFRS adoption;
- establishing a committee that develops appropriate and relevant standards for SMEs in collaboration with the IASB;
- offering IFRS examinations and certifications; and
- requiring members to demonstrate knowledge of IFRS in order to renew practicing licenses.



IPSAS Adoption Challenges

Increasingly, jurisdictions recognize the importance of enhancing quality and transparency in public sector financial management. However, given the complexities and sensitivities around financial reporting in the public sector, and the fact that PAOs do not often have a legal mandate in this area, they face challenges in promoting the adoption and implementation of the IPSAS.

Within the MENA region, PAOs often encounter:

- a lack of understanding of IPSAS and its benefits;
- a shortage of professional accountants working within the public sector with knowledge of the standards;
- a resistance to change and transparency; and
- weak IT infrastructure, which is necessary to implement the standards.

IPSAS Adoption Solutions

During these discussions, solutions were offered at three levels: global, regional, and national. Globally, international development agencies could influence governments to adopt IPSAS by encouraging them to be more transparent in consideration of the public interest. At a regional level, a MENA representative on the International Public Section Accounting Standards Board® (IPSASB®) would help to better support the standard-setting process. The regional organizations—the Gulf Cooperation Council Accounting and Auditing Organization (GCCAAO) and the Arab Federation of Accountants and Auditors (AFAA)—are well-placed to be coordinate the nomination process amongst PAOs. Finally, at national levels, suggested solutions included:

- increasing the training time and resources spent on covering IPSAS; and
- sharing information from governments that have already adopted IPSAS.

Effective Implementation of Mechanisms

Participants also discussed the challenges and possible solutions for the effective establishment and implementation of quality assurance (QA) and investigative and disciplinary (I&D) systems. Although the two systems are distinctive, common issues exist, such as independence and public perception.

Participants identified several mechanism-specific challenges that PAOs face and discussed how they can be addressed.

QA System Adoption Challenges

The establishment and effective functioning of QA review systems has been the focus of audit regulatory activity in many jurisdictions in recent years, and although the accountancy profession has been a driving force in QA systems' progress, there are still hurdles to overcome.

Within the MENA region as a whole there is a lack of independent reviewers and financing. While some jurisdictions may have one or the other, both components are needed in order to operate a QA review system. Additionally, many PAOs face resistance from external stakeholders due to negative perception of QA reviews, a challenge not limited to the MENA region.



QA System Adoption Solutions

Several of the solutions presented during the workshop emphasized the importance of and need for global and regional partnerships, such as:

- exchanging reviewers from other countries to ensure independence; and
- establishing a partnership with a PAO that has expertise in QA to enhance the quality and performance of independent reviewers.

Other solutions implemented by PAOs include:

- establishing a committee within the institute to carry out training and design QA manuals and procedures in Arabic; and
- promoting the QA review process as part of accreditation as opposed to enforcement.

I&D System Adoption Challenges

The investigation and discipline of professional accountants is often shared between PAOs and regulators. This requires constant collaboration and communication not only between stakeholders but between stakeholders and the public.

One of the challenges most frequently cited is the lack of I&D committee independence, leading to low public trust. The need to publicly and clearly explain the accountant's role to both stakeholders and clients, and distinguish between serving the public interest and serving the client, is particularly important as part of raising I&D awareness.

I&D System Adoption Solutions

Solutions PAOs have deployed include:

- involving a third/external party on I&D committees to enhance public trust;
- publicizing enforcement actions to demonstrate that individuals are being held accountable;
- implementing a range of penalties, from training to suspension, depending on the case; and
- supporting members' businesses that are affected by the disciplinary process by providing the human resources needed for them to continue functioning.

Developing Competencies and Credibility of the Accountancy Profession

Incorporation of the *Code of Ethics for Professional Accountants*[™], issued by the International Ethics Standards Board for Accountants[®] (IESBA[®]), and International Education Standards[™] (IES[™]) requirements into ethical and educational standards can be a culturally sensitive and resource-intensive endeavor. National education and ethical requirements are often based on, or strive to incorporate, international requirements. However, this means that PAOs and regulators, which often share the task of setting these foundational requirements, must constantly collaborate to keep the adopted standards up to date. This is a prominent issue in the MENA region, made even more so as the revised IES and Non Compliance with Laws and Regulations (NOCLAR) standard become effective.

However, having both educational and ethical requirements in place in order to increase public confidence and trust in the accountancy profession remains important, and possible solutions to challenges in both areas were shared.



Code of Ethics Adoption Challenges

Similar to other areas, establishing ethical standards is a shared responsibility as requirements can be set by national laws and regulations, regulators, and PAOs within the jurisdiction. As mentioned, this makes it challenging to keep adopted ethical standards updated. PAOs in the region often lack Arabic translations of the IESBA Code of Ethics and, therefore, cannot disseminate the Code to their members. This may compound the problem of the public's perception of the profession.

Code of Ethics Adoption Solutions

Possible solutions at both national and regional levels include:

- referring directly to the IESBA Code of Ethics (and not to its content) whenever possible in bylaws so that all updates to the standard are automatically included;
- requiring members to complete a certain number of their continuing professional development (CPD) hours with ethics-related training;
- including real ethical case studies within training instead of teaching the Code itself;
- maintaining a log of ethical issues members have faced and providing advice; and
- regional organizations could adopt the IESBA Code of Ethics as a symbolic gesture in order to raise awareness and encourage governments to adopt the Code locally.

IES Adoption Challenges

The IES were significantly revised in 2015, making them less prescriptive and more principles based, with a focus on learning outcomes to support professional competence. The adoption of these standards, however, requires extensive resources, knowledge, infrastructure, and time in order for PAOs to develop plans to address important changes. Keeping up with the latest IES is a significant challenge in the region. University curricula and syllabi are often outdated, which means that many students are unable to pass the qualifying exams. Without properly qualified individuals, the positive effect the accountancy profession can have on economic growth and development is limited.

IES Adoption Solutions

The harmonization of educational requirements within the region could facilitate a greater exchange of professionals. Accordingly, several solutions to address the challenge of IES adoption involved the assistance of regional organizations, such as:

- creating a unified, regional curriculum and qualifying exam;
- defining professional competencies; and
- developing a regional framework and benchmark around initial professional development and CPD using the *European Common Content Project* as an example.

At the same time, PAOs are also working at the local level to drive the incorporation of IES requirements into national requirements by:

- working with universities to update and consolidate curricula and syllabi;
- implementing testing at the end of CPD sessions to ensure students understood the content; and
- incorporating mandatory CPD into law.



Furthering Regional Cohesion and Collaboration

PAOs need to adopt a future-looking mindset to continue to improve the accountancy profession. This means that time spent at workshops such as this one should focus less on debating challenges and more on the solutions that benefit future accountants and auditors.

PAOs should collaborate more among themselves, the government, and other regulators to ensure high-quality outputs. To achieve this, old laws and regulations, training and educational programs, and professional qualifications all need to be updated and aligned with current international requirements.

Overall, the accountancy profession in the MENA region has made remarkable progress over the past several years and if PAOs continue to implement solutions in a results-oriented manner, the profession will only continue to improve.