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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EXECUTIVE SUMMARY

In recognition of the important role that professional accountancy organizations (PAOs) can play in furthering the principles of aid effectiveness embodied in the Paris Declaration, Accra Agenda for Action, and the Busan Partnership for Effective Development Cooperation, the International Federation of Accountants (IFAC) and twelve donor organizations signed the Memorandum of Understanding to Strengthen Accountancy and Improve Collaboration (MOSAIC).  

1 MOSAIC signatories: African Development Bank (AfDB); Asian Development Bank (ADB); Australian Agency for International Development (AusAID); Finland; the Global Alliance for Vaccines and Immunisation (GAVI); the Global Fund to Fight AIDS, Tuberculosis, and Malaria; Inter-American Development Bank (IDB); the Swedish International Development Cooperation Agency (SIDA); UK Department for International Development (DFID); the United States Agency for International Development (USAID); New Zealand; and the World Bank.

MOSAIC’s objective is to increase the capacity of PAOs in partner countries to improve the quality of public and private sector accountancy and financial management with a view toward enhancing the effectiveness and efficiency of donor assistance, enhancing economic growth, and reducing poverty. When PAOs maintain appropriate capacity, they are able to:

- Operate in the public interest;
- Develop capable and competent accountancy professionals;
- Promote strong professional and ethical standards;
- Enhance the quality of financial reporting and auditing
Professional accountancy organizations (PAOs) are membership bodies comprised of individual accountancy professionals who perform a variety of roles in the accountancy field and adhere to high-quality standards of practice.

Enhancing the capacity of PAOs to undertake these functions strengthens national institutions and underpins donor community efforts to shift resources away from maintaining costly parallel systems and toward the true objectives of assistance—improving the health, education, and livelihoods of people in emerging and developing partner countries. Additionally, focusing efforts on strengthening PAOs supports the production of high-quality financial reporting, auditing, and financial management, which in turn:

- Act as a resource to government, regulators, and other stakeholders on accountancy related issues.

The Ten Key Areas of Focus for MOSAIC PAO Development Activities

This GDR, commissioned by the donor community, has culminated in ten key findings, which provide direction for MOSAIC in developing and strengthening PAOs. These findings act as a compass, revealing where the priority focus should be for MOSAIC activities.

1. **Undertake PAO Development Comprehensively**
   Due to the strong connections between PAOs and other components of national financial infrastructure, efforts to improve and strengthen PAOs must be undertaken comprehensively, in a manner that takes into consideration the many moving pieces that influence the core functions of a PAO. Technical assistance must be oriented to support development within the greater national contexts of sound financial sector legislation, professional accountancy capacity building, and regulation of the financial sector.

2. **Strengthen Legal and Regulatory Foundations**
   Additional support is needed for developing accounting and auditing legislation that embodies international standards and establishes clear institutional arrangements for regulation and enforcement of such standards. Such legislation provides clear mandates for PAOs and recognizes the unique position these organizations hold within the financial infrastructure of a country.

3. **Monitor and Provide Support to Fragile States**
   Additional support is needed to monitor the development of the profession in fragile and early emerging economies. This includes maintaining dialogue and relationships with local leaders of the profession and providing development assistance that can be absorbed and managed by recipients, which will enhance the likelihood of success and focus donor resources.

4. **Support Internal Strengthening of PAOs**
   Currently, many PAOs lack a coherent operating model that directs the organizational, financial, technical, and overall development of their organization, defines key activities, and provides indicators to facilitate measurement of progress. Additional support for PAOs in developing a sound system...
of governance, appropriately structuring operations, and utilizing strategic planning techniques will aid in positioning PAOs to take a greater role in furthering financial sector and economic growth.

5. Develop PAO Education and Certification Capacity
At the moment, many national PAOs lack systems of certification that include appropriate entry criteria, professional accountancy education, assessment, practical experience, and continuing professional development (CPD) requirements in line with International Education Standards (IESs). Although many PAOs have made significant gains in this area, additional assistance is needed to target weaknesses, build human capacity in the area of accountancy, and provide higher-quality financial information to both government and business.

6. Broaden PAO Membership Bases
A broad-based profession that offers different education requirements, assessment, and practical experience suited for different areas of emphasis within the profession provides personnel who are “fit for purpose” with the opportunity to enhance the profession. A broad-based profession also offers opportunities to build the membership base of PAOs, which allows for self-sustaining operations. Although there has been movement in some regions toward developing PAOs with broad membership (e.g., auditor, management accountant, and accounting technician), additional awareness building and reinforcement is needed to support these PAOs, either at the national or regional level, in designing and delivering such offerings.

7. Further Implementation of International Standards
Although many countries and PAOs have adopted international accountancy standards (e.g., International Standards of Auditing, International Financial Reporting Standards, International Public Sector Accounting Standards, and the Code of Ethics for Professional Accountants), the adoption of older versions of the standards, inappropriate modification of standards by many national governments, and serious deficiencies in the application of standards by practitioners reduces their international comparability, consistency, and cross-border understanding. Development assistance supporting the creation of formal systems to undertake the process of translating and incorporating updates to international standards on a timely basis is needed. Additionally, support directed toward the design, development, and operation of PAO systems of certification, quality assurance, oversight, and investigation and discipline will further the implementation of international standards and enhance realization of their benefits.

8. Support PAO Orientation to the Public Sector
Although some PAOs maintain a strong public sector membership and undertake services and activities to support public sector accountancy and financial management, many PAOs struggle to identify how they can support the public sector. Development assistance focused on developing guidance and support to PAOs in orienting themselves toward the public sector may be effective in enhancing the capacity and involvement of PAOs in this area.

9. Strengthen Regional Organizations and the Services They Provide
Regional accountancy organizations can have a strong impact on the development of national-level PAOs. By combining knowledge, expertise, and ability at the regional level, they offer opportunities for mutual support and assistance to national-level efforts in PAO development. Although these organizations have had strong impact on regional PAO development, the demand for their support greatly outweighs their current capacity. Development assistance that supports strengthening regional accountancy organizations and their initiatives can have a significant impact on improving the capacity of national-level PAOs.

10. Facilitate PAO Mentoring Relationships
In recent years, the donor community and PAOs have recognized the value of mentoring between PAOs as an efficient and effective method of sharing knowledge and transferring sustainable expertise from one organization to another. Development assistance efforts focused on facilitating PAO mentoring relationships offer an opportunity to build PAO capacity and establish a lasting, supportive relationship between PAOs that will continue to strengthen and enhance PAO operations.
OUR OBJECTIVES

On November 30, 2011, IFAC and members of the international development community signed MOSAIC. MOSAIC sets out the basis for improving cooperation and collaboration between IFAC, international donors, and the international development community. MOSAIC aims to (a) provide a foundation for increasing the capacity of PAOs in partner countries to improve the quality of public and private sector accountancy and financial management with the ultimate objective of advancing economic growth and reducing poverty; and (b) optimize the joint efforts of signatories in enhancing the capacity of the accountancy profession in emerging and developing countries.

At the inaugural MOSAIC Steering Committee meeting held in February 2012, committee leadership agreed to the creation of a high-level report regarding the current status of PAO development worldwide as a first step in realizing its objectives. Collaborative efforts have yielded this high-level view of the global status of PAO development. This report also further explores the development of PAOs at the regional level through the inclusion of four regional overviews: Africa, Asia Pacific, Europe and Central Asia, and Latin America and the Caribbean.

Although previous research and reports focused on the broader subject of accounting and auditing development, the Professional Accountancy Organization Global Development Report (GDR) is the first to provide insight on the global trends, challenges, and success factors unique to the development of PAOs. This report is designed to provide Steering Committee members, observers,
and other interested parties with a shared understanding of PAO development and the foundation needed to guide efforts in determining the direction of the MOSAIC initiative, setting priorities for cooperative efforts, and agreeing on a work program.
OVER THE PAST TWO DECADES, SUBSTANTIAL RESEARCH WAS UNDERTAKEN ON ACCOUNTANCY. THE WORLD BANK ACCOUNTING AND AUDITING REPORTS ON THE OBSERVANCE OF STANDARDS AND CODES (AA ROSCs) HAVE PRODUCED PUBLICLY AVAILABLE REPORTS THAT ASSESS THE STRENGTHS AND WEAKNESSES OF EXISTING INSTITUTIONAL FRAMEWORKS, WHICH UNDERPIN FINANCIAL ACCOUNTING AND AUDITING PRACTICES; DETERMINE THE COMPARABILITY OF NATIONAL ACCOUNTING AND AUDITING STANDARDS WITH INTERNATIONALLY RECOGNIZED STANDARDS, INCLUDING INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) AND INTERNATIONAL STANDARDS ON AUDITING (ISAs); EXAMINE THE DEGREE OF COMPLIANCE WITH NATIONAL ACCOUNTING AND AUDITING STANDARDS; AND EVALUATE THE EFFECTIVENESS OF ENFORCEMENT MECHANISMS FOR ENSURING COMPLIANCE WITH EXISTING NATIONAL STANDARDS, RULES, AND REGULATIONS. THE AA ROSCs ALSO IDENTIFY AREAS FOR IMPROVEMENT THAT HELP POLICYMAKERS AND OTHER COUNTRY STAKEHOLDERS DEVELOP AN ACTION PLAN FOR ENHANCING ACCOUNTING AND AUDITING STANDARDS AND PRACTICES IN THE COUNTRY.

FOCUSING MORE NARROWLY ON PAO COMPLIANCE AND DEVELOPMENT, IN 2004 IFAC INSTITUTED THE MEMBER BODY COMPLIANCE PROGRAM. THIS

1 World Bank and the International Monetary Fund (IMF) have initiated the joint ROSC initiative, which covers a set of 12 internationally recognized core standards and codes relevant to economic stability and private and financial sector development. The 12 standards are data dissemination, fiscal transparency, transparency in monetary and financial policies, banking supervision, securities market regulation, insurance supervision, payments and settlements, anti-money laundering, corporate governance, accounting, auditing, and insolvency and creditor rights. Following the process, each of the 12 core standards are assessed and reported on in an individual module. Under this modular approach, the IMF takes the lead in preparing assessments in the areas of data dissemination and fiscal transparency. The World Bank takes the lead in anti-money laundering, corporate governance, accounting and auditing, and insolvency regimes and creditor rights.
In recognition of the valuable information related to PAO development that is made publicly available, the development of the global and regional components of this report are predominantly based upon these resources.

The seven Statements of Membership Obligations (SMOs) are the foundation of the IFAC Member Body Compliance Program. Five of the SMOs relate to the international standards established by the four independent standard-setting boards whose structures and processes are facilitated by IFAC and the International Accounting Standards Board. The remaining two establish best practices for Quality Assurance Reviews and Investigation and Disciplinary Processes. In essence, the SMOs serve as a framework for credible and high-quality professional accountancy organizations focused on serving the public interest by a) supporting adoption and implementation of international standards; and b) maintaining adequate enforcement mechanisms to ensure professional behavior of their individual members.2

Finally, in recent years, tools such as the United Nations Conference on Trade and Development (UNCTAD) Capacity Building Framework for High Quality Financial Reporting and the United States Agency for International Development (USAID) Accountancy Development Index (ADI) have sought to provide perspective on various aspects of country accountancy environment and development as well.

In recognition of the valuable information related to PAO development that is made publicly available, the development of the global and regional components of this report are predominantly based upon these resources. Available data was reviewed and synthesized to create a coherent picture regarding the state of PAO development around the world and within each region. To supplement this information, and to provide additional input into the design of the report, consultations were held with representatives from MOSAIC Steering Committee member and observer organizations as well as with key stakeholders in the area of PAO development for each region.

Giving form to this report are the essential elements of PAO development, which underlie the presentation of PAO development information at the global level and the structure of the presentation of this information at the regional levels.

1. Legal and Regulatory Foundation (PAO Enabling Environment)
2. PAO Organizational Capacity
3. Quality Assurance
4. Professional Education, Assessment, Practical Experience, and Continuing Professional Development3
5. Support for Adoption and Implementation of International Standards on Auditing4
6. Support for Adoption and Implementation of the Code of Ethics for Professional Accountants5
7. Support for Adoption and Implementation of International Public Sector Accounting Standards6
8. System of Investigation and Discipline
10. Support for Public Financial Management

These essential elements were identified based on existing diagnostic tools, resources on accountancy development, the IFAC SMOs, and IFAC membership criteria. Essential elements 3-9 were drawn in large part from the SMOs, since SMO requirements serve both as a means for attaining and maintaining IFAC membership and as a framework for developing PAOs in line with international standards and best practices.

Additionally, in considering the presentation of PAO development information in tools and resources, the concepts embodied in the SMOs are used as a means for assessment by other, external resources (e.g., World Bank AA ROSC Mauritius 2011).

An essential element was also added to indicate the legal and regulatory foundation, or PAO enabling environment, present in a country. This is included to give context to the development of PAOs in a country/region and in recognition of the important role that legal support and an enabling environment can play in

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3 In accordance with International Education Standards (IESs) issued by the International Accounting Education Standards Board (IAESB)
4 In accordance with International Standards on Auditing (ISA) issued by the International Auditing and Assurance Standards Board (IAASB)
5 In accordance with the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA) and its interpretations, which apply to all professional accountants whether in public practice, business, education, or the public sector.
6 In accordance with International Public Sector Accounting Standards issued by the International Public Sector Accounting Standards Board (IPSASB)
7 In accordance with International Financial Reporting Standards issued by the International Accounting Standards Board (IASB)
PAO development. An additional essential element that addresses the organizational capacity of PAOs aims to assist in identifying internal challenges where donor support might be provided, as strong internal operations may greatly impact the ability of PAOs in undertaking development assistance efforts. Finally, as a key objective of MOSAIC is the potential for reducing parallel systems and increasing reliance on partner country systems, an essential element regarding PAO support for public financial management was added to illustrate the role and capacity of PAOs in support of this aspect of accountancy.

In addition to application at the global and regional level, these essential elements have also been applied to a limited sample of country PAOs for each region. Each of the four regional components of this report includes an illustrative sample of five country-level PAO profiles. In total, these twenty PAOs are not meant to be statistically significant, or wholly representative of PAO global development, but have been included to provide a micro-level view of the challenges facing PAO development.

The country-level PAOs selected were chosen to demonstrate diversity in: country size, level of PAO development, language, sub-regional breakdowns, and orientation to public sector accountancy. The availability of timely and relevant information was also considered in country selection. One country level PAO profile is included in each regional section to facilitate readability. The remaining profiles are included as an addendum to this report.
The Role of PAOs in National Financial Infrastructure

PAOs, as an integral part of national financial infrastructure, hold the potential to provide a significant contribution to the financial, economic, and social development of their countries, regions, and the world. When PAOs function appropriately, they:

- **Act in the Public Interest**
  PAOs can function as an integral aspect of the delivery of public value globally and can promote good corporate governance and the consistent application of global standards.

- **Develop and Produce Capable and Competent Accountancy Professionals**
  Through education, certification, and continuing professional development (CPD) programs, these organizations produce competent professionals who are able to meet the demands of business and government by producing high-quality financial information, undertaking risk management and internal control activities, and furthering corporate governance.

- **Promote and Enforce Strong Professional and Ethical Standards**
  Through adoption and implementation of international professional and ethical standards and best practices, PAOs
can set the bar for behavior and practice of accountancy professionals, thereby enhancing public trust in the quality of their work. Additionally, through well-functioning systems of investigation and discipline, PAOs can work to enforce adherence to these standards.

- **Further the Quality of Financial Reporting and Management through Review of Professionals**
  Through systems of quality assurance (QA) and investigation and discipline, PAOs work to enhance the application of professional and ethical standards in practice. Well-functioning systems not only operate to strengthen professional behavior but also to educate and reinforce best practices—thereby advancing the profession and the quality of information provided.

- **Act as a Resource to Government, Regulators, and Other Stakeholders**
  As a center of knowledge and expertise, PAOs assist governments, regulators, and other stakeholders, both at the country and regional level, with sound public policy guidance and advice on accountancy-related topics.

**Strong PAOs = Strong Partner Countries**

Strengthening and empowering PAOs to undertake their core functions supports high-quality financial reporting and management, which in turn:

- **Attracts Foreign Direct Investment (FDI)**
  The development of capital markets requires credible and reliable financial information to build investor confidence, further sound economic and financial management, and increase the attractiveness of a country’s investment climate, which facilitates FDI and business development.

- **Promotes Growth and Development of the Small- and Medium-sized Entity (SME) Sector**
  According to the Organisation for Economic Cooperation and Development (OECD), SMEs account for over 60% of gross domestic product (GDP) and 70% of total employment in low-income countries. These businesses require high-quality financial information to support business planning, facilitate access to credit, and expand operations. For SMEs, high-quality information and financial management enhances their ability to thrive.

- **Enhances Transparency and Accountability in the Use of Resources**
  High-quality financial information in the public sector enables assessment of the impact of fiscal and monetary policy decisions and assists external reporting by governments to electorates, taxpayers, and investors. In addition, it aids internal management decisions in resources allocation (planning and budgeting), monitoring, and accountability. High-quality financial information is equally important for the private sector where such information facilitates sound business decision making in the allocation of resources across product lines, internal and external reporting, and assessment of investment opportunities.

- **Improves the Design and Delivery of Vital Public Services**
  Utilizing the information provided through high-quality financial reporting, policymakers and others in positions of authority can improve the efficiency and effectiveness of government programs, better achieve the objectives of their design, and successfully deliver vital public services to those in need.

- **Enhances the Effectiveness and Efficiency of Official Development Assistance (ODA)**
  When PAOs have the capacity to facilitate the production of high-quality financial information by their members, the donor community benefits through more reliable partner country systems, improved transparency and accountability, strengthened systems of monitoring and evaluation, and reliable information that facilitates donor decision making.

**How Can We Help PAOs Reach Their Full Potential?**

Although PAOs around the world hold the potential to significantly impact national economic and social development, many struggle to fulfill their functions and fall short of realizing their full potential. IFAC, the donor community, and PAO efforts have greatly progressed PAO capacity building; however, much more remains to be done. In reflecting on PAO development around the world, ten key findings emerge that provide direction for MOSAIC efforts in developing and strengthening PAOs.

1. **PAO development cannot be viewed in a vacuum.**
   Due to the strong links between PAOs and other components of national financial infrastructure, efforts to improve and
A necessary ingredient in the development of PAOs is the existence of a strong legal and regulatory environment. Against the odds, PAOs around the world have made significant progress in countries where weak foundations exist; however, the impact of their efforts has been greatly limited by these legal and regulatory deficiencies. Support for raising awareness among national stakeholders on the importance of strong legal and regulatory foundations to advance accountancy and PAOs, technical assistance in the development of clear legal and regulatory frameworks in line with international standards and best practices, and ongoing aid in implementing legal and regulatory reforms is vital to ensuring continued growth, economic gains, and prosperity.

**3. Efforts to establish and strengthen PAOs in fragile states should take their lead from local champions.**

Although several fragile states presently lack a PAO, the desire to provide immediate assistance should be tempered with the need to reflect and consider the appropriateness of intervention. Efforts to develop the accountancy profession in some countries are often outweighed by the need to first focus efforts on establishing political stability, rebuilding infrastructure, and furthering human development goals. Many times, the lack of formal PAOs in some nations is linked to the nature of ongoing conflict in the country, recent emergence from conflict and consequential efforts to re-build and re-establish the profession, and/or ongoing internal social and economic challenges facing the country. In some nations, cases of successful post-conflict PAO development may be attributed in part to the strong leadership demonstrated by partner country stakeholders in directing and guiding the strengthening of developing PAOs, as well as the timing and availability of donor support to supplement locally-led efforts.

As PAOs strive to operate as self-sustaining organizations, the significance of demand-driven development takes on greater importance and is closely linked to the overall success of these organizations. Additional support to monitoring the development of the profession in fragile and early emerging economies, maintaining dialogue and relationships with local leaders of the profession, and providing development assistance that can be absorbed and managed by recipients may enhance the likelihood of success for development assistance efforts and may aid in focusing donor resources.

strengthen PAOs must be undertaken comprehensively in a manner that takes into consideration the many moving pieces that touch upon the core functions of a PAO.

Technical assistance efforts must be oriented to support development within the greater national contexts of sound financial sector legislation, professional accountancy capacity building, and regulation of the accountancy profession. Reflection on the impact and inclusion of relevant government, regulatory, oversight, and academic bodies in the design, development, and operationalization of systems will reduce disjointedness and will enhance the effectiveness and efficiency of resulting systems.

Additionally, the creation of systems that encourage strong coordination and communication among various stakeholder organizations will greatly advance achievement of the overriding goals of developing sound financial sector legislation, building professional accountancy capacity, and strengthening regulation of the profession.

**2. Strong legal and regulatory foundations provide fertile ground for PAO establishment and growth.**

A necessary ingredient in the development of PAOs is the existence of a strong legal and regulatory environment. Accounting and auditing legislation, which embodies international standards and establishes clear institutional arrangements for regulation and enforcement of such standards, should provide clear mandates for PAOs and recognize the unique position these organizations hold within the financial infrastructure of a country.

Clear mandates are crucial to the issue of PAO development. Strong legal and regulatory foundations provide the basis for PAOs to undertake core functions (e.g., professional certification, QA, education and training) that are integral to the production of competent and capable accountancy professionals and strong financial information. Presently, many of the world’s national legal and regulatory frameworks are outdated; lack clarity regarding the roles and responsibilities of PAOs, oversight bodies, government, and other stakeholders; and stifle the financial and economic development crucial to national poverty reduction efforts.
4. Strengthening PAOs “on the inside” may further their impact “on the outside.”

The ability of PAOs to promote high-quality financial information, financial-sector development, and economic growth is largely contingent upon their ability to generate adequate financial and technical resources to undertake core functions (i.e., certification, education and training, quality assurance, and investigation and discipline). A sustainable operating model that embodies strong governance and modern organizational structure and is supported by strategic planning is crucial to positioning the PAO in the marketplace, identifying revenue generating services, and increasing membership—all of which contribute to the ongoing sustainability of PAO operations.

At the moment, many PAOs lack a coherent operating model that directs the organizational, financial, technical, and overall development of their organization, defines key activities, and provides indicators to facilitate determination of progress. The lack of such planning may greatly impact the sustainability of PAOs and their ability to contribute to national development. Therefore, efforts that focus on supporting PAOs in developing a sound system of governance, appropriately structuring operations, and utilizing strategic planning techniques will aid in positioning PAOs to take a greater role in furthering financial sector and economic growth.

5. Professional certification and lifelong learning is the beating heart of the profession and provides educated, experienced, and skilled professionals to all sectors of the economy.

The main function of all professional organizations, whether they represent the medical, engineering, or accountancy fields is to further the knowledge, skills, and abilities of aspiring professionals and to ensure up-to-date knowledge among those currently in practice. The lack of a system of certification that includes appropriate entry criteria, professional accountancy education, assessment, practical experience, and CPD in line with International Accounting Education Standards Board (IAESB)’s International Education Standards (IESs) and best practices results in poorly educated and unskilled professionals incapable of meeting the demands of government and the marketplace.

Although many PAOs have made significant gains in the development and operation of certification systems, ongoing weaknesses in university education systems (e.g., lack of updated curricula, lack of incorporation of international standards), the design and operation of certification systems, a lack of legal requirements for certification prior to professional practice, and a disconnect between CPD achievement and practicing rights seriously weakens the quality of financial information upon which partner country public and private sectors rely.

Development assistance targeting these weaknesses will build human capacity in accountancy and provide higher-quality financial information to both government and business—advancing their ability to make sound economic and policy decisions, better monitor and utilize financial resources, and ensure the effective and efficient use of official development assistance.

6. PAOs with broad membership (e.g., auditors, management accountants, accounting technicians, financial statement preparers, public sector accountants, internal auditors) are working to meet the needs of their professional members and their economies.

A broad-based profession offering different education requirements, assessment, and practical experience suited for the different areas of emphasis within the profession provides personnel who are “fit for purpose” offers the opportunity to enhance the profession, and builds the membership base of PAOs, which allows for self-sustaining operations. Although there has been movement in some regions toward developing PAOs with broad membership inclusive of different areas of the profession (e.g., auditor, management accountant, professional accountant, and accounting technician), additional awareness building and assistance is needed to support these PAOs, either at the national or regional level, in designing and delivering such offerings.

7. International accountancy standards provide a universal language for communicating financial information—but between the lack of translations, updates to standards at the national level and poor implementation—we are still not speaking the same language.

International accountancy standards, including International Standards on Auditing (ISAs), International Financial Reporting Standards (IFRS), International Public Sector Accounting Standards (IPSAS), and the Code of Ethics for Professional Accountants, provide a universal language for communicating
financial information. In addition, they offer numerous benefits to partner countries by providing a method for people in different countries to view public and private sector financial information and extract the same understanding of the financial position and activities of governments and businesses.

In recognition of the changing nature of business and government, these standards are updated to ensure that they encompass new and emerging aspects of accountancy and continue to deliver timely, relevant financial information that accurately represents the health of organizations. Over the past decade, these standards have gained global acceptance and, in many cases, have been adopted by PAOs and their countries in recognition of the potential value that may be derived.

However, in many other countries, the lack of adoption of updated versions of the standards, the decision by many national governments to inappropriately modify these standards, and serious deficiencies in the application of standards by practitioners reduces the international comparability, consistency, and cross-border understanding that the international standards seek to provide.

Such actions have real impact—cross-border investors may question the validity of financial information and shift investments to more transparent countries; governments may make faulty policy decisions due to poor-quality financial information; and donors may need to use their resources to build costly parallel accountancy systems instead of using resources to deliver assistance to those in need.

The lack of formal systems for ensuring the timely incorporation and translation of updates to international standards on an ongoing basis is one aspect of this challenge. The other aspect is the lack of systems of certification, quality assurance, oversight, and investigation and discipline to effectively monitor and further international standards implementation and the resulting quality of services provided.

Development assistance supporting the creation of formal systems to undertake the process of translating (if applicable) and incorporating updates to international standards is greatly needed. Additionally, support in the design, development, and operation of systems of certification, quality assurance, oversight, and investigation and discipline will further the implementation of international standards and enhance realization of their benefits.

8. **Greater efforts are required to unlock the potential of PAOs in supporting public sector accountancy and the broader topic of public financial management.**

Although some PAOs maintain a strong public sector membership and undertake services and activities to support public sector accountancy and financial management, many PAOs struggle to identify how they can support this area. Additionally, in some cases, legislation or organizational bylaws restrict the ability of the PAOs to support public sector accountancy and financial management.

PAOs can leverage the a) knowledge gained through development of systems of training, education, and preparation of accountancy professionals; b) experience assisting members in transitioning from national to international standards; c) and international insight into best practices in quality control and investigation and discipline to support public sector efforts to professionalize and enhance the capacity of their workforces, adopt and implement international standards, and develop internal processes for quality control within the government.

Development assistance focused on raising awareness, among both government and PAO stakeholders, of the relevance and value of PAO knowledge and experience with public sector efforts could greatly enhance the support PAOs provide in this area. Additionally, development and provision of guidance and support for PAOs in orienting themselves toward the public sector (e.g., through education/training offerings, support to IPSAS adoption and implementation, as well as support to broader financial management issues) may be effective in enhancing the capacity and involvement of PAOs in this area.

9. **When PAOs work together through regional organizations they achieve greater development gains than when they work alone.**

Regional accountancy organizations can have a strong impact on the development of national-level PAOs. By combining regional knowledge, expertise, and ability at the regional level, they offer opportunities for mutual support and assistance to individual national-level efforts in PAO development. Although these organizations have strongly influenced regional PAO development, the need for their support greatly outweighs their current capacity.

Development assistance strengthening both regional accountancy organizations and their initiatives could have
a significant impact on improving the capacity of national-level PAOs. Additional assistance is needed to assist regional organizations to a) strengthen PAOs that are very weak or in early stages of formation; b) provide technical support for the development of educational programs and certification; c) provide technical assistance for the development of practical tools and technical guidance to further implementation of international accountancy standards; and d) assist in the establishment of effective relationships with government and external stakeholders.

10. **PAO mentoring is an efficient and effective way of developing the profession.**

In recent years, there has been a realization by IFAC and the donor community of the value of mentoring between PAOs as a method of sharing knowledge and transferring sustainable expertise from one organization to another. PAOs around the world are working together through twinning arrangements, donor funded projects, and a wide range of other collaborative partnerships to support each other and strengthen less-established PAOs. These relationships focus on a wide range of topics but can provide an effective and efficient manner for PAOs to establish and reinforce organizational governance and structure, strengthen programs of professional certification, and develop systems of investigation and discipline and quality assurance in-line with international standards and best practices.

Development assistance focused on facilitating PAO mentoring relationships offer an opportunity to build PAO capacity and establish a lasting, supportive relationship between PAOs that will continue to strengthen and enhance PAO operations long after the conclusion of formal technical assistance.
PAO DEVELOPMENT ACROSS THE REGIONS
Understanding The Regional Context

With a population of approximately one billion\(^1\) and a Gross Domestic Product (GDP) of more than US $1 trillion\(^2\), the African continent holds a commanding presence in global markets. African countries have been growing at a relatively fast rate since the beginning of the new millennium, which in turn has led to improvements in areas such as trade, mobilization of government revenue, infrastructure development, and the provision of social services. From 2001 to 2008, Africa was among the fastest growing regions in the world economy with growth widespread across countries.\(^3\) To ensure continued expansion and economic gains, a sound financial infrastructure, complete with high-functioning professional accountancy organizations (PAOs) is necessary to provide a solid foundation for the production of high-quality financial information and continued growth.

Currently, the African region\(^4\) includes many entities that can be considered PAOs—national-level membership bodies comprised of individual professional accountants, auditors, and/or accounting

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1. UN Population Fund
4. For the purposes of this report, the Africa region consists of African Development Bank Regional Member countries, a listing of which is available online (www.afdb.org/en/about-us/members).
technicians who perform a variety of roles in the field of public and private sector accountancy and adhere to high-quality standards of practice. Of these organizations, 25 PAOs in 24 countries are recognized as IFAC members or associates.

Although only approximately half of all countries in the Africa region hold associate or member status with IFAC, many more are currently striving to achieve recognition by working with IFAC and IFAC Recognized Regional Organizations (ROs) and Acknowledged Accountancy Groupings (AAGs) to follow the path set by the IFAC Statements of Membership Obligations (SMOs) to strengthen their operations.

In addition to national-level PAOs, there are also three regional accountancy organizations with status in IFAC that support development of the profession in Africa.

**Pan African Federation of Accountants**

The Pan African Federation of Accountants (PAFA), the newest African regional accountancy organization, was established in May 2011 and has 39 member PAOs in 34 countries. The establishment of PAFA emerged from the positive synergies developed among the Eastern, Central, and Southern African countries through their creation of the Eastern, Central, and Southern African Federation of Accountants (ECSAFA). In 2011, ECSAFA, which was an IFAC RO, was dissolved and membership allegiances were oriented toward the newly created PAFA.

PAFA’s vision is to be recognized as an influential voice of the accountancy profession from Africa. PAFA believes that good governance, accountability, good financial management, and transparency are principal pillars in the acceleration of economic growth and the reduction of poverty. Functional PAOs working closely with their governments can contribute greatly to these pillars.

To this end, PAFA is working on:

- Strengthening existing PAOs in Africa;
- Establishing PAOs in countries where none exist;
- Bringing into PAFA all PAOs in Africa;
- Adopting, implementing, and enforcing international standards in Africa;
- Harmonizing accountancy education and training in Africa to facilitate cross-border skills transfer; and
- Strengthening the PAFA secretariat to enable effective support of its mandate.

PAFA is working to facilitate strong interactions between PAOs and their governments in each country and places an emphasis on government agencies responsible for economic and financial management, accountability and transparency, governance, and the fight against corruption. PAFA is presently applying for IFAC RO status.

**Association of Accounting Bodies in West Africa**

The Association of Accounting Bodies in West Africa (ABWA) is the regional organization for the accountancy profession in West Africa. Its vision is to be the foremost regional accountancy body and provide leadership in the development, enhancement, and strengthening of the accountancy profession in West Africa, thereby enabling the profession to provide services of consistently high quality in the public interest and contribute to the development and sustainable growth of the economies of the sub-region.

ABWA’s mission extends to strengthening the accountancy profession among member countries, enhancing technical competence and ethical standards of members for effective service delivery by adopting global best practices in the public

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5 Recognized Regional Organizations (ROs) are independent bodies that share the IFAC mission and values and that, in many cases, have the same membership as IFAC in those regions. ROs play a valuable role by supporting the development of the international accountancy profession, facilitating convergence to international standards, and providing leadership in addressing issues affecting the accountancy profession in their region and/or constituencies. The policy statement setting out the criteria for ROs by IFAC and the consequential obligations for that organization, as well as a listing of ROs, is available on the IFAC website (www.ifac.org/about-ifac/membership/member/regional-organizations).

6 Six Accountancy Groupings are acknowledged by IFAC. These groupings support the objectives and pronouncements of IFAC and the advancement of the accountancy profession within their constituencies. The policy statement setting out the criteria for an accountancy grouping to be acknowledged by IFAC and the consequential obligations for that organization, as well as a listing of organizations, is available on the IFAC website (www.ifac.org/about-ifac/membership/member/groupings).

7 More information is available on the PAFA website (www.pafa.org.za).

8 Twenty-three of the 39 PAFA members also maintain either associate or member status within IFAC.

9 More information is available on the ABWA website (www.abwa-online.org).
interest, and contributing to sustainable economic development of member countries. Additionally, ABWA seeks to partner with other stakeholders in promoting, fostering, and sustaining economic development on the African continent. ABWA maintains recognition as an IFAC AG and has 15 member PAOs.\(^\text{10}\)

**Fédération Internationale des Experts-Comptables Francophones**

The Fédération Internationale des Experts-Comptables Francophones (FIDEF) is an international professional accountancy organization uniting francophone PAOs in 34 countries across four continents with strong membership among francophone African PAOs.\(^\text{11}\) FIDEF maintains recognition in IFAC as an AG.

FIDEF structures its activities and cooperation in support of the francophone accountancy community and bases its work around:

- Furthering the recognition and authority of the francophone accounting profession;
- Promoting professional accountancy standard setting among francophone countries;
- Translating auditing and accounting standards as well as all text and useful features;
- Ensuring that francophone accounting and auditing professionals maintain a standardized level of technical competence that is both recognized internationally and aligned with local economic needs;
- Contributing to the debate on international harmonization in the field of auditing and accounting; and
- Representing the francophone accountancy profession before international institutions.

Additionally, a number of North African countries (e.g., Egypt, Tunisia, and Morocco) maintain membership in the Federation of Mediterranean Accountants (FCM), which represents the accountancy profession in the Mediterranean area and maintains AG status with IFAC.\(^\text{12}\)

Finally, several North African countries (e.g., Tunisia and Sudan) maintain membership in the Arab Federation of Accountants and Auditors (AFAA), which represents the profession among Arab states in the Gulf, Middle-East, and North Africa and is working to gain AG status within IFAC.

**Viewing Africa Region PAO Development**

Using the agreed upon essential elements as a reference point, a high-level view of the status of PAO development throughout the Africa region can be established. To present the picture of regional PAO development, a desk-study review\(^\text{13}\) was conducted utilizing: a) IFAC Member Body Compliance Program assessments of regulatory and standard-setting framework, Statements of Membership Obligations (SMO) self-assessment questionnaires and SMO Action Plans; b) World Bank Accounting and Auditing Reports on the Observance of Standards and Codes (ROSCs); and c) PAO websites.\(^\text{14}\)

**LEGAL AND REGULATORY FOUNDATION—THE PAO ENABLING ENVIRONMENT**

At the regional level, the emergence and strengthening of economic and monetary unions has had a marked impact on the development of accountancy enabling legislation. Currently, economic and monetary unions (e.g., West African Economic and Monetary Union, L’Organisation pour l’Harmonisation en Afrique du Droit des Affaires/Organization for the Harmonization of Business Law in Africa, East African Community) and their emphasis on harmonization and consistency across borders has influenced many PAOs in their adoption and implementation of international standards and best practices and strengthening and harmonization of legislation to support such efforts.

\(^{10}\) Eight of the 15 ABWA members also maintain either associate or member status with IFAC.

\(^{11}\) More information is available on the FIDEF website (www.fidef.org)

\(^{12}\) FCM is explained in greater detail as part of the Europe and Central Asia region component of this report.

\(^{13}\) Desk study review included information for PAOs in the following countries: Bénin, Botswana, Cameroon, Côte D’Ivoire, the Democratic Republic of Congo, Egypt, Ghana, Kenya, Lesotho, Liberia, Madagascar, Malawi, Mauritius, Morocco, Namibia, Nigeria, Rwanda, Senegal, Sierra Leone, South Africa, the United Republic of Tanzania, Tunisia, Zambia, and Zimbabwe.

\(^{14}\) Additionally, a very limited number of personal interviews were conducted where additional clarification was needed.
At the national level, the lack of a legal and regulatory framework that supports accountancy is a significant challenge to PAO development (especially in fragile states), although many countries maintain strong accountancy enabling legislation. Accountancy frameworks that define the practice of accountancy; identify the roles and responsibilities of standard setters, regulators, and PAOs; and outline the appropriate professional standards lay the foundation for formalization of the profession and the development of PAOs. In countries where these elements of accountancy remain ambiguous (e.g., the Democratic Republic of Congo), PAOs can still develop. However, their ability to operate in the economy and provide key functions, such as quality assurance, certification, and investigation and discipline, is greatly challenged. Donor assistance efforts focused on strengthening the legal and regulatory framework of these countries may be crucial to supporting the development of PAOs.

**PAO ORGANIZATIONAL CAPACITY**

Across the region, PAO capacity is generally low; however, there are some PAOs (e.g., Nigeria and South Africa) that maintain strong staffing, professional management, adequate committee structure, and sufficient funding to facilitate core functions and membership services. Africa region PAOs tend to maintain strong volunteerism and leverage this to meet their objectives. To supplement their efforts, several African PAOs are actively engaged with the donor community and receive valuable support and assistance. Several PAOs (e.g., Liberia, Rwanda, and Lesotho) are currently partnered with the donor community to strengthen internal systems and support development of their organization in line with international standards and best practices. Support from the donor community has greatly aided in raising awareness of the importance of a strong accountancy profession and the role PAOs play in the economy as a resource for national accountancy development; however, the need for support in this area continues.

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

PAOs in the Africa region typically require a university degree or completion of the PAO’s accountancy education program as a first step in attaining membership. In addition, most PAOs require passage of an examination as well as three years of practical experience prior to being certified as a professional accountant. Requirements for practical experience and continuing professional development (CPD) vary more widely.

At this point, few Africa region PAOs maintain formal systems for monitoring the achievement of practical experience and CPD. One important trend at the regional level regarding professional certification is the development of a broader profession with different education requirements, assessment, and practical experience suited for different areas of focus within the broader accountancy profession (e.g., accounting technician, management accountant, and auditor). Several PAOs have, either independently or through regional organizations, incorporated technician-level certification and membership into their organization to further develop and address the needs of the broader profession. Among African PAOs, there has been recognition of the need for this certification and membership within their organizations and the development of programs and membership opportunities to address this need.

In 2003, ECSAFA conducted a survey of accounting-technician qualifications in the ECSAFA region. In view of the diversity disclosed by the research, ECSAFA agreed to work toward the harmonization of technician qualifications in the region. In May 2005, the ECSAFA Council approved occupational standards for accounting technicians as the basis for harmonization following an extensive consultation process. These standards were used as a basis for the development of the joint qualification offered by the South African Institute of Chartered Accountants and the Association of Accounting Technicians South Africa.

In addition to ECSAFA’s efforts, the development and operation of regional accounting technician arrangements can be seen through ABWA’s Accounting Technicians Scheme West Africa (ATSWA). The objective of ATSWA is to pursue regional cooperation, integration, and strengthen and consolidate accounting standards and practices. The goal of the ATSWA is to benefit regional economies through increased productivity of a well-trained and disciplined work force. Efforts to address the need for accounting technician certification have also occurred on an individual-country level. PAOs in Lesotho, Rwanda, and Uganda have recognized the need for such certification and have instituted programs to suit the needs of their economies.
Despite the general acceptance of ISAs, there is significant diversity regarding which version of ISAs has been adopted and the mechanisms in place to ensure that updates to ISAs are incorporated into audit practice.
Although desk-study materials noted that most PAOs have incorporated ISAs in education, training, assessment, and CPD materials, the lack of well-developed systems of quality assurance calls into question the application of these standards in practice. Additionally, the low levels of technical capacity within PAOs also renders their ability to provide adequate technical training, guidance, and support to professionals as they apply international standards in practice questionable.

**SYSTEM OF INVESTIGATION AND DISCIPLINE**

Most PAOs maintain some form of investigation and discipline (I&D) of members in cases of violation of professional and/or ethical standards. Although these systems exist, the level and degree to which they are designed and operate in line with international best practice is questionable. Many I&D systems lack separate panels for investigating and disciplining members and many PAOs are in the process of reviewing their systems of I&D for compliance with IFAC SMOs.

Additionally, these I&D mechanisms can be questioned due to the low number of cases examined through PAO I&D systems. Additional technical support and assistance to PAOs to strengthen systems of I&D and ensure proper organization could be very useful to advance high-quality financial reporting. To further develop and enhance systems of I&D, development efforts to a) ensure appropriate education in the function of I&D systems; b) raise awareness among PAO leadership and members regarding the importance and role of I&D in the proper functioning of the profession; and c) provide support and guidance to fledging systems, especially in the area of breaches of professional ethics, could be very useful.

**QUALITY ASSURANCE**

Due in part to the diversity in development of PAOs throughout the Africa region, there is great polarization related to the development of systems of quality assurance (QA). The continent maintains a considerable number of PAOs that have extensively developed and implemented QA systems (e.g., Nigeria, Botswana, Kenya, Ghana, Namibia) and an equally sizable number of PAOs that have not implemented any QA system (e.g., Madagascar, Morocco, Senegal).

As QA is a high-level function requiring significant resources and expertise, these systems are more commonly found among more-established PAOs that maintain strong membership and have adequate resources, both human and financial, to design and operate a QA system.

New entrants to the development and operation of systems of quality assurance tend to utilize mentoring or twinning arrangements to gain knowledge, experience, and capacity in developing and operating QA systems. These arrangements tend to be structured to commence with the external provision of QA services combined with an emphasis on building the QA capacity of local staff over time with a gradual hand-over of responsibility. Although several PAOs presently lack a system of QA, their IFAC Compliance Program SMO Action Plans tend to acknowledge this weakness and include actions to address and strengthen this area.

Given the resource-intensive nature of quality assurance, attention could be placed on developing QA at the regional level to serve the national-level PAOs in that region. Operating such a scheme offers opportunities to pool resources, expertise, and ability and provide for greater independence in undertaking QA reviews. The regional QA system developed by the PAO members of the ECSAFA is a useful example of how to structure a regional program in this manner.

**SUPPORT FOR ADOPTION AND IMPLEMENTATION OF INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS**

Very few governments in the region have adopted International Public Sector Accounting Standards (IPSAS), issued by the International Public Sector Accounting Standards Board (IPSASB). The power to approve or set public sector accountancy standards generally rests with the government, with a few notable exceptions, as seen in Uganda and Zambia.

Although most governments have not yet adopted and implemented IPSAS, many have indicated the desire or plan to adopt IPSAS in the coming years. Therefore, several PAOs have undertaken active engagement and support for public sector accountancy development efforts. In Kenya, for example, the Institute of Certified Public Accountants of Kenya actively collaborates with the government in support of IPSAS adoption through membership on the governmental Treasury Committee.

In Botswana, the Public Sector Committee was established to drive public sector financial reporting and financial management reforms in the country. The Committee plans to work in conjunction with the Botswana Institute of Chartered Accountants to develop a
A substantial number of African PAOs are orienting their activities toward the public sector and are engaging in efforts to support public financial management.

Key challenges for PAOs in the Africa region remain and engagement in these areas from the donor community through MOSAIC would help strengthen the capacity of PAOs and their ability to contribute to financial sector development, economic growth, and poverty reduction.

- **Efforts to develop the accountancy profession among fragile states should take their lead from local champions.**
  At times, the lack of formal PAOs in Africa is linked to the nature of ongoing conflict (e.g., the Democratic Republic of Congo); recent emergence from conflict and consequential efforts to rebuild and re-establish the profession (e.g., Libya); and/or ongoing social or economic challenges facing the country (e.g., South Sudan). Successful post-conflict PAO development (e.g., Liberia, Rwanda, and Sierra Leone) may be attributed in part to the strong leadership demonstrated by partner-country stakeholders in directing, guiding, and strengthening these organizations, as well as the timing and availability of donor support to enhance local-led efforts.

- **Regional accountancy organizations such as PAFA, ABWA, and FIDEF play a strong role in the development of the profession at both the regional and national level.**
  The capacity of the profession in Africa has been greatly enhanced by PAFA’s decision in May 2012 to adopt international standards, ABWA’s development of its Accounting Technician Scheme, which has produced more than 4,000 graduates, and FIDEF’s support for the translation of standards and guidance materials into French. Although these organizations have made significant achievements, the need for their support greatly outweighs their current capacity.
Development assistance supporting strengthening regional accountancy organizations and their initiatives could have a significant impact on improving the capacity of African PAOs. Additional assistance could focus on aiding regional organizations in the development of PAOs in African countries where there are none; providing technical support for the development of accountancy education tools; providing technical assistance facilitating development of practical tools and technical guidance, especially for the implementation of ISAs, International Standards for Quality Control, and IFRSs; and assisting in the establishment of effective relationships with government and external stakeholders.

• **Cooperation among sub-regional peer PAOs (South-South learning) has accelerated the development and strengthening of African PAOs.** Knowledge sharing and learning between sub-regional peer PAOs has allowed them to accelerate development (e.g., Institute of Certified Public Accountants of Kenya cooperation and knowledge sharing with the Institute of Certified Public Accountants of Rwanda) and has created sub-regional interrelationships, which have further strengthened the overall level of PAO development among the sub-region. For example, the combined sub-regional efforts to develop PAOs in the East African Community (EAC) have resulted in these PAOs emerging as leaders of the profession and led to the creation of Mutual Recognition Agreements (MRAs) between EAC national PAOs. Additional support for regional and sub-regional peer PAO relationships may further overall development of the profession across the continent.

• **An increasing number of African countries are in the process of establishing and developing independent audit regulators.** The development of independent audit regulators (IARs) is still nascent in most African countries. However, in more developed African economies, where the profession is more established, there have been notable efforts to develop and strengthen IARs. Countries such as Mauritius and Botswana have established and are further strengthening their audit regulators, which operate independently to oversee the quality of services provided by the audit profession and undertake some aspects of investigation and discipline of professionals. Additional donor efforts to support government and the profession in development of these systems may greatly advance the overall quality and resulting value of financial information—thus underpinning economic growth.

• **PAOs throughout the Africa region are actively supporting PFM activities.** Several African PAOs have oriented themselves to serve public sector members and engage and support development of public sector accountancy and financial management, perhaps due in part to the size and economic impact of the government sector. Additional support for strengthening ongoing-PAO programs and facilitating further engagement of PAOs in this area may strengthen partner-country PFM and advance the objectives of aid effectiveness and efficiency.

• **Although most Africa region countries have adopted international standards, including IFRSs, ISAs, and the Code of Ethics for Professional Accountants, additional support is needed to further the implementation of these standards.** Many PAOs are presently working to strengthen their CPD systems and enhance the robustness of CPD offerings. Additional support to this area, especially related to training and CPD courses on international standards, may further implementation. Additionally, support in the development of practical guidance on the use of international standards in practice could provide enhanced understanding to practitioners.

• **Adoption and implementation of international standards have been delayed to some degree due to translation barriers.** PAOs are working together through regional organizations, such as FiDEF, or with same language national-level PAOs to coordinate and pool efforts in the translation of standards in order to address translation barriers. For example, support for translation could be provided by a Brazilian PAO to lusophone Africa countries, such as Angola and Mozambique. Additional efforts may be needed to support PAOs tasked with translation responsibilities, especially where peer-country coordination efforts could enhance the timeliness and quality of resulting translations.
A CLOSER LOOK AT PAO DEVELOPMENT: THE INSTITUT DES REVISEURS COMPTABLES

With a population of more than 60 million inhabitants, the Democratic Republic of Congo (DR Congo) has enjoyed sustained economic growth since 2002. After a long period of poor governance and civil war that plunged the country into a serious economic crisis, the DR Congo established new political institutions in 2002 and began a period of economic reform.

The oldest and most representative PAO is the Institut des Réviseurs Comptables (IRC), which was created in 1992 by members of the Conseil Permanent de la Comptabilité au Congo (Permanent Council on Accounting of the Congo, or CPCC) who were trained in Belgium for three years as part of a cooperation arrangement with the Instituut van de Bedrijfsrevisoren - Institut des Réviseurs d’Entreprises (IRE Belgium). Today, IRC exists as the professional association for accountancy in DR Congo and maintains membership in PAFA and FIDEF through which it works to engage in enhancing the profession internationally.

LEGAL AND REGULATORY FOUNDATION—THE PAO ENABLING ENVIRONMENT

The IRC is a nonprofit association with independent legal status established by Ministerial Order No. 073/CAB/MIN/J&GS/2002 of April 13, 2002. Additionally, in 2006, the IRC obtained protection for the title of “réviseur comptable” (auditor) by Certificate No. 665/2006 of the Ministry of Industry. Though the IRC is not officially recognized by the government as a PAO, the organization and its membership have received some recognition through granting certain restricted practicing rights (e.g., members of IRC are permitted by the Ministry of Justice to undertake audits of banking sector entities).

Although the legal and regulatory framework governing accounting in the DR Congo has changed very little over the past three decades, the DR Congo’s 2009 decision to join as a signatory to OHADA and further develop its business and financial environment in line with regional best practices presents great opportunity for change.

Accordingly, on September 10, 2012, the eight Uniform Acts comprising OHADA became effective within DR Congo. With the focus of these Uniform Acts on elements such as harmonization of company accounting systems, the DR Congo’s decision to sign OHADA provided an impetus for the development of a PAO.

PRESENTLY, the country and its stakeholders have not yet begun development of legislation, institutions, or processes that would formally recognize and enable a PAO. Therefore, additional assistance to DR Congo, its government, and the IRC may be useful in establishing and recognizing the accountancy profession and moving to embody the requirements of OHADA.

PAO ORGANIZATIONAL CAPACITY

To organize its structure and operations, IRC maintains articles of association, bylaws, ethical requirements, internal rules, and a code of conduct. Its organization is comprised of 40 members with auditors making up the majority. In addition to auditors, the IRC has accountant, tax reviewer and preparers, and student members. The organization maintains a General Assembly, Council, president, vice president, treasurer, and different committees (e.g., Internship and Research Committees). The General Secretary leads the strategic direction of the organization and the day to day operations. Additionally, IRC maintains a small staff of 3-4, including an accountant and secretarial staff. The IRC has a headquarter office and maintains a small library of resources for its members.

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

The IRC and the government of DR Congo have maintained a cooperative relationship with IRE Belgium since 1983 to further the development of the Congolese audit profession. Candidates achieve certification, and membership in IRC, by attaining a university degree and three years of practical experience through the IRC’s formal internship program. Additionally, many candidates travel to Belgium to attain training and sit for the required certification examinations. Due in large part to the cooperative relationship between IRE Belgium and IRC, IRE Belgium undertakes a substantial portion of the training and certification of professionals. To ensure lifelong education and attainment of knowledge and skills in line with latest emerging issues in the profession, IRC provides seminars three times per year on various topics relevant to the accountancy profession. In addition, representatives of IRE Belgium travel to DR Congo...
annually and work with IRC to organize trainings and provide CPD education.

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

The IRC maintains a Code of Conduct, which was initially adopted in 1992. In recognition of the need to update and enhance ethical requirements, in September 2012, the IRC adopted the French translation of the 2009 Code of Ethics for Professional Accountants. In light of these recent changes to ethical requirements, additional support and assistance for awareness building and the development and provision of ethical training and education programs may greatly facilitate the implementation of these standards.

**SUPPORT TO ADOPTION AND IMPLEMENTATION OF THE INTERNATIONAL FINANCIAL REPORTING STANDARDS**

In accordance with the West African Economic and Monetary Union (WAEMU) Regulation number 04/96/CM/UEMOA, the OHADA Uniform Act Organizing and Harmonizing Company Accounting Systems of February 22, 2000, and the OHADA Uniform Act Relating to Commercial Companies and Economic Interest Groups of April 17, 1997, entities in WAEMU or OHADA are now preparing their financial statements in accordance with the OHADA standards.

In DR Congo, SYSCO-OHADA will come into force in September 2012; however as the enforcement date is close to most companies’ year end, these standards will most likely be applied by companies beginning in January 1, 2013. It is important to note that the accounting standards laid out in the Congolese General Chart of Accounts (Plan Comptable Général Congolais, or PCGC) were developed in 1976 and have not been amended over the years to align with changes at the international level.

Therefore, adoption and implementation of the Uniform Acts presents a significant change in financial reporting requirements and necessitates intensive education and training activities in order to appropriately prepare the business community and profession for SYSCO-OHADA adoption and implementation. Additional support and assistance for development and provision of SYSCO-OHADA training and education programs and technical support to members of the profession actively involved in transitioning companies to these standards may greatly facilitate the implementation of SYSCO-OHADA.

**SUPPORT FOR ADOPTION AND IMPLEMENTATION OF INTERNATIONAL STANDARDS ON AUDITING**

The auditing standards applicable in the DR Congo are not defined in a law or regulation. Although not embodied in law, recently the IRC has taken the progressive step of declaring ISAs to be used by its membership in undertaking statutory audits. In spite of this step, without legislative support to this declaration, the IRC holds little to no ability to compel adherence.

The IRC works very closely and collaborates with neighbors in the region to gain knowledge and prepare its professionals for the application of ISAs. Although not legally mandated, in previous years, the IRC has conducted training on ISAs, including a 40-hour training seminar on international accounting and auditing standards as part of the capacity-building project financed by the World Bank. Additional support to DR Congo and the IRC in strengthening the legal and regulatory framework to define auditing standards and increasing IRC capacity to provide education and training on ISAs may greatly enhance the quality of audit services.

**SYSTEM OF INVESTIGATION AND DISCIPLINE**

The IRC maintains a Disciplinary Committee that can discipline auditors and deliver sanctions, including warning, suspension, and expulsion from membership. The system is designed to allow the committee to act on referrals, complaints from an interested party, or written orders from the Attorney General. The committee decides cases by a majority of votes after hearing a response from the concerned party. Discipline by the IRC is exercised first by the Board of the IRC. In case of appeal of decisions by the Board, the Disciplinary Committee may be convened for a second time and can be expanded to include a judge and lawyer from the Court of Appeal to make a final decision. The system’s design requires decisions of the Disciplinary Committee be forwarded to the president of the IRC for execution. Although a system of investigation and discipline does exist, its operations are limited by its lack of legal recognition as an organization and its inability to effectively enforce sanctions.

**QUALITY ASSURANCE**

The activities of audit firms and statutory auditors in the DR Congo are not subject to any controls by the IRC or by any other authority. This means that professionals who do not respect the applicable rules and standards are unlikely to be sanctioned.

*The IRC works very closely and collaborates with neighbors in the region to gain knowledge and prepare its professionals for the application of ISAs.*
Efforts to develop a system for quality assurance for IRC have been attempted; however, due to lack of legal recognition as a PAO and enforcement powers, efforts were unsuccessful.

**SUPPORT TO ADOPTION AND IMPLEMENTATION OF INTERNATIONAL PUBLIC SECTOR ACCOUNTANCY STANDARDS**

DR Congo does not require the use of IPSAS and the IRC does not maintain responsibility for adoption of IPSAS in the country. However, members of the IRC have begun initial discussions with appropriate government representatives to raise awareness of IPSAS, their benefits, and the importance of adoption.

**SUPPORT TO PUBLIC FINANCIAL MANAGEMENT**

Although IRC does not have a formal relationship with the government, it does have organizational members who are members of the national standard setter and/or have supported the efforts of public sector entities in strengthening accountancy.

The IRC recognizes the extremity of DR Congo’s lack of accountancy professionals to meet the needs of the country’s public and private sectors (for a country of 60 million inhabitants, the IRC has only 40 professional members). Therefore, one of IRC’s main areas of interest is to expand its membership to include a broad base of professionals, including those in the public sector. Additionally, IRC would like to establish a certification directed toward accounting technicians in recognition of the importance of the role of these professionals in the economy. Development of such a program may offer opportunities for engaging and incorporating a membership more inclusive of public sector professionals.
Understanding The Regional Context

With a population of 3.63 billion and a GDP of US$11.56 trillion, the Asia-Pacific region is comprised of numerous countries, cultures, and languages. The Asia-Pacific region consists of three sub-regions: South Asia, East Asia, and Australasia-Oceania.

The South Asian sub-region has the largest concentration of poor people—it is home to 1.5 billion people with over 1 billion living on less than US$2 a day. Growth in the sub-region has not been fast or inclusive enough to reduce the total number of people living on less than US$1.25 a day, which has increased and stands at approximately 600 million people. The challenge ahead for South Asia is to make the recovery stronger, more inclusive, and sustainable.2

In East Asia, although poverty continues to fall,3 substantial efforts are still needed to ensure continued increases in productivity, preservation of economic growth, and additional poverty-reduction efforts.

The production of high-quality financial information, upon which government, investors, businesses, and the donor community can

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base sound financial, management, and policy decisions, underpins additional economic growth. Supporting capacity building efforts of PAOs can have a marked impact on the quality of financial information produced and can further economic growth and poverty reduction among Asia-Pacific region countries.

The Asia-Pacific region includes many PAOs—national level membership bodies comprised of individual professional accountants, auditors, and/or accounting technicians who perform a variety of roles in the field of public and private sector accountancy and adhere to high-quality standards of practice. Of these, 32 PAOs in 23 countries maintain IFAC associate or member status. Additionally IFAC is represented in the region by a Recognized Regional Organization, the Confederation of Asian and Pacific Accountants and an Acknowledged Accountancy Grouping, the South Asian Federation of Accountants. Additionally, the Association of South East Asian Nations (ASEAN) Federation of Accountants, which is not formally recognized or acknowledged by IFAC, is relevant to discussions of the accountancy profession in the region.

• **Confederation of Asian and Pacific Accountants**
  The Confederation of Asian and Pacific Accountants (CAPA), established in 1976, represents national professional accounting organizations in the Asia-Pacific region and has 31 member PAOs in 24 jurisdictions. CAPA’s mission is to provide leadership in the development, enhancement, and coordination of the accountancy profession in the Asia-Pacific region to enable the profession to provide services of consistently high quality in the public interest.  

• **South Asian Federation of Accountants**
  The South Asian Federation of Accountants (SAFA) is a forum of professional accountancy bodies committed to positioning, maintaining, and developing the accountancy profession in the South Asian Association for Regional Cooperation nations and ensuring its continued eminence in the world of accountancy in the public interest and toward broad economic development of the region. SAFA currently represents the eight PAOs in Bangladesh, India, Nepal, Pakistan, and Sri Lanka.  

• **ASEAN Federation of Accountants**
  The ASEAN Federation of Accountants (AFA), organized in 1977, serves as the umbrella organization for the national associations of accounting professionals of the member countries of the Association of South East Asian Nations (ASEAN).  

**Viewing Asia-Pacific Region PAO Development**

Due in part to the extensive size of the region, there are great disparities in the level of development of PAOs. For example, countries such as Afghanistan, Lao People’s Democratic Republic, and some of the pacific islands maintain very low or no PAO development activity. However, other Asia-Pacific countries, such as Australia, India, New Zealand, Republic of Korea, and Singapore have a high level of development. As the focus of MOSAIC activities is on supporting the development of PAOs in emerging and developing nations, this regional overview will focus on those countries and organizations within the Asia-Pacific region where PAOs are less established and countries require donor assistance.

Using the generally agreed upon essential elements as a reference point, a high-level view of the status of PAO development throughout the Asia-Pacific region can be established. To create this picture of regional PAO development, a desk study review was conducted utilizing a) IFAC Compliance Program assessments of regulatory and standard-setting framework, Statements of Membership Obligations (SMO) self-assessment questionnaires, and SMO Action Plans; b) IFAC PAO Development Committee Asia and Australasia-Oceania Regional Strategy; c) World Bank Accounting and Auditing Reports on the Observance of Standards and Codes (ROSCs); and d) PAO websites.

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4 More information is available on the CAPA website (www.capa.com.my).
5 More information is available on the SAFA website (www.esafa.org).
6 The Association of Southeast Asian Nations (ASEAN) was established on August 8, 1967 in Bangkok, Thailand, with the signing of the ASEAN Declaration (Bangkok Declaration) by Indonesia, Malaysia, Philippines, Singapore, and Thailand. Brunei Darussalam joined in 1984, Vietnam in 1995, Lao People’s Democratic Republic and Myanmar in 1997, and Cambodia in 1999.
7 More information is available on the AFA website (www.aseanaccountants.org/about.htm).
8 Desk study review included information for PAOs the following countries: Afghanistan, Bangladesh, Brunei Darussalam, Cambodia, China, Fiji, Indonesia, Mongolia, Myanmar, Nepal, Pakistan, Papua New Guinea, Philippines, Sri Lanka, Thailand, Timor Leste, and Vietnam.
9 Additionally, a very limited number of personal interviews were conducted where additional clarification was needed.
LEGAL AND REGULATORY FOUNDATION—THE PAO ENABLING ENVIRONMENT

In most emerging and developing countries in the Asia-Pacific region, the legal framework enabling the function of PAOs is very weak. Additional efforts to strengthen frameworks to legally recognize PAOs and enable them to undertake core functions would greatly strengthen their ability to advance high-quality financial reporting.

Some legal and regulatory frameworks examined are outdated or lack clarity regarding the role and responsibilities of the profession; in some cases, weaknesses in the legal and legislative environment has resulted in the creation of confusing and overlapping systems (e.g., audit oversight in Indonesia).

In general, government, usually the Ministry of Finance, maintains a strong role in the regulation of the accountancy profession. This is especially true in many transitional economies, where relinquishing power to the private sector, or non-governmental entities, is an emerging practice. Although there are some countries (e.g., Cambodia) where the Ministry of Finance maintains authority for standard setting, in many countries, setting standards is the responsibility of a board functioning either as a part of or in consultation with the PAO.

Where Ministries of Finance still maintain authority for standard setting, the overall trend is moving toward transfer of this authority to the PAOs. In terms of adoption and implementation of international standards, most standard-setting boards are adopting the convergence approach in seeking to comply and embody international standards. As the private sector becomes a stronger element in the economy, there will be a need to transition various activities from the government to the private sector to enable PAOs to effectively address emerging issues facing the accountancy profession (e.g., Myanmar).

PAO ORGANIZATIONAL CAPACITY

Most of the PAOs in Asia-Pacific have a sound organizational structure with a governing council and committees to carry out its activities. However, due to a lack of resources, PAOs tend to rely on volunteers to implement its programs, which can result in skills mismatches, delays, and organizational inefficiencies and can greatly limit the impact of PAO efforts.

The main challenge for PAOs in the Asia-Pacific region relates to business planning and generation of sufficient resources. A PAO's ability to contribute to promoting high-quality financial reporting is largely contingent on adequate financial and technical capacity to undertake core functions, such as quality assurance, investigation and discipline, and certification. In many cases, obtaining technical capacity is strongly linked to generating financial resources capable of covering the costs associated with this expertise. A sustainable operating model supported by strategic planning is crucial to positioning a PAO in the marketplace, identifying revenue generating services, and increasing membership—all of which contribute to the ongoing sustainability of PAO operations. Many PAOs lack a coherent, strategic operational plan to direct the financial, technical, and overall development of their organization, define key activities, and measure progress. The lack of such planning may greatly impact the sustainability of PAOs and their overall impact on financial sector development, economic growth, and poverty reduction.

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

Most PAOs in the Asia-Pacific region maintain relatively strong education, assessment, practical experience, and continuing professional development (CPD) requirements. To strengthen systems of accountancy education, many PAOs are now working with universities in their countries to integrate International Education Standards (IESs), issued by the International Accounting Education Standards Board (IAESB), into university curriculum to ensure exposure and understanding of these standards.

One area where there is continued need for development is in CPD. SMO Action Plans from several PAOs highlighted the need for stronger systems of CPD that align with IES 7, Continuing Professional Development. To facilitate this, some PAOs, such as the Institute of Chartered Accountants of Bangladesh, have undertaken twinning arrangements to obtain best practices, insight, and guidance on the development of their system from more-established PAOs.

The utilization of twinning or mentoring programs in this area to transfer expertise and increase capacity may be a model for duplication among other PAOs in the region. Additionally, there appears to be high demand for workshops and seminars related to the practical application of international standards in order to ensure appropriate practitioner knowledge and skills.

Many PAOs lack a coherent, strategic operational plan to direct the financial, technical, and overall development of their organization, define key activities, and measure progress.
Most SMO Action Plans from PAOs outline a sound work program for aligning educational requirements with those in the IESs. In the Asia-Pacific region, additional efforts are needed to develop the accounting technician sector of the profession. In countries where PAOs are very fragile or non-existent (e.g., Afghanistan, Timor Leste, and Myanmar), the development of a strong accounting technician sector may offer opportunities to develop a strong membership base, provide an education and certification system that better fits the needs of the economy, and offer an opportunity for the PAO to develop into more resource-intensive activities, such as design, development, and operationalization of auditor certification systems. Additionally, for fragile nations where a majority of employment occurs in the public sector, the development of systems of accounting technician certification and making these offerings available to public sector employees can greatly support strengthening public financial management.

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

Almost all PAOs reviewed have adopted a code of ethics, usually based on or developed in alignment with the International Ethics Standards Board of Accountants (IESBA) Code of Ethics for Professional Accountants (the Code), to guide the ethical behavior of professional accountants in public practice, business, and public sector. Several of these Codes are not in convergence with the most recent version of the Code and typically use an outdated version in the development of their organization’s ethical requirements (e.g., Vietnam, Cambodia, Brunei Darussalam).

Furthermore, desk-study materials noted few PAOs have a formal system for incorporating modifications and additions to the Code in a timely manner. Ethical requirements enacted by law instead of set by the PAO further complicate the challenge of ensuring timely updates to codes of ethics by creating considerable delays. For example, under the current law in Cambodia, the PAO is unable to adopt the Code in its entirety as the adoption of such codes must be made through a Sub-Decree signed by the Prime Minister. In such cases, PAOs are using their best endeavors to drive amendments to current legislation that enable adoption of the Code and permit automatic adoption of any future amendments.

Although adoption presents difficulties for PAOs, particularly where translation is an issue, implementation presents a far greater challenge. As previously mentioned, efforts to strengthen systems of CPD are underway and SMO Action Plans note efforts to ensure inclusion of ethical requirements among CPD offerings as well as in accountancy education, assessment, and general training activities.

CPD offerings should focus not only on the standards and the theories behind such standards, but on the application of these standards in practice to ensure understanding of the impact and meaning of standards in the day to day activities of professionals. An area where additional efforts may be constructive is in the development of guidance that utilizes local examples to illustrate the tenets of the Code. Additional donor support could greatly enhance the ethical training and orientation of the profession.

SUPPORT FOR ADOPTION AND IMPLEMENTATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

As described previously, most Asia-Pacific region countries are moving toward International Financial Reporting Standards (IFRS) and IFRS for SMEs (small and medium-sized entities), issued by the International Accounting Standards Board, through the process of convergence of local standards with international standards. Additionally, there is a trend in some Asia-Pacific region countries for standard-setting boards to modify or alter international standards to reflect their local country requirements (e.g., Indonesia, Sri Lanka). This presents challenges to the international comparability of financial information, which is one of the key benefits of international standards.

Although adoption and convergence present some challenges for the region, the key area of weakness is in implementation. Many PAOs are in the process of developing training, outreach, dissemination, and continuing education on IFRS to address these weaknesses. Additional support could greatly enhance the understanding and application of IFRS in practice. Additionally, as previously noted, many PAOs are presently working to enhance the robustness of their CPD offerings; support to this area, especially related to training and CPD courses on IFRS, may advance the development of this area. Finally, support for the development of practical guidance on the use of these standards could enhance the understanding of practitioners as they apply the standards. Although there is a lot of material available, it does not address...
the need at the user level—primarily accounting technicians—for guidance that reflects the specific national environment.

SUPPORT FOR ADOPTION AND IMPLEMENTATION OF INTERNATIONAL STANDARDS ON AUDITING

Most countries reviewed had not yet achieved full adoption or convergence with International Standards on Auditing (ISAs), issued by the International Auditing and Assurance Standards Board (IAASB). However, several have SMO Action Plans that outline efforts to achieve compliance with ISAs and other standards issued by the IAASB and in accordance with IFAC SMO 3.

Although adoption and convergence present challenges for the region, as with IFRS the key area of weakness facing the profession is in ISA implementation. Many PAOs are in the process of developing training, awareness-building initiatives, and continuing education on ISAs to address these weaknesses. Additional support for these efforts could greatly enhance the understanding and application of ISAs in practice. Additionally, as previously noted, many PAOs are working to enhance the robustness of their CPD offerings and additional support, especially related to training and CPD courses on ISAs, may advance development of this area. Finally, support for the development of practical guidance on the use of these standards by PAOs could enhance the understanding of practitioners as they apply the standards.

SYSTEM OF INVESTIGATION AND DISCIPLINE

Most PAOs maintain some investigation and discipline (I&D) system for accountancy professionals. The degree to which these systems are aligned with IFAC SMO 6 requirements varies,11 but SMO Action Plans show an understanding of the necessary components of a system and, where the system may not be functioning in full alignment, the inclusion of steps to address this issue. However, additional assistance could be useful to support PAOs in enhancing the operational effectiveness and efficiency of their systems.

QUALITY ASSURANCE

As a result of the higher profile and improved credibility of the accounting profession, many countries in the Asia-Pacific region have established a quality assurance (QA) system in line with international standards. In Asia-Pacific, the underlying problem with QA systems is the general weakness of monitoring and oversight of the accounting profession, such as the case in Indonesia. In many countries, but especially in smaller countries, the accounting profession is a very small community, which challenges both the capacity available to conduct QA reviews and the independence of review activities.

To address independence, some more-established PAOs in the region have developed QA departments staffed with full-time professionals, although this solution presents challenges of its own in terms of capacity and finding qualified PAO staff with the necessary skills to undertake audit quality reviews.

One possible solution for smaller Pacific countries interested in improving their QA system may be to pool expertise and resources at the regional level to develop a regional system of quality assurance, as has been conducted among smaller Caribbean PAOs. For example, a regional QA system among PAOs in smaller nations in the region with country coordination structured through regional organizations, such as CAPA, SAFA, and/or AFA, may present an opportunity. However, additional technical support and financing would be necessary in order to build sufficient capacity within regional organizations.

Additionally, emerging and developing PAOs may look to acquire assistance from more-established PAOs to provide quality assurance services on their behalf while gradually building internal capacity to eventually take over this function. In some countries, attention needs to be given to legislative reforms that would grant authority to PAOs for QA (e.g., Mongolia) and to streamline and clarify roles and responsibilities (e.g., Indonesia) to ensure effective and efficient functioning of these systems.

SUPPORT FOR ADOPTION AND IMPLEMENTATION OF INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS

The adoption and implementation of International Public Sector Accounting Standards (IPSAS), issued by the International Public Sector Accounting Standards Board (IPSASB), and support for public sector accountancy and financial management present particular challenges as the public sector is not typically an area where PAOs have responsibility and, therefore, many are not orientated toward these activities.

Generally, the authority for setting public sector accountancy standards is held by the Ministry of Finance or the Auditor General,

11 SMO 6 sets out the requirements of an IFAC member body with respect to mechanisms that provide for the investiga-
tion and discipline of those who fail to exercise and maintain professional standards and related obligations of an IFAC member body.
as is the case in most South Asian nations. Most PAOs use their best endeavors to raise awareness of the importance of adoption and implementation of IPSAS, engage in dialogue with public sector standard setters to highlight the benefits if IPSAS, and/or undertake research into the lessons learned and best examples of adoption and implementation.

Some PAOs, such as those in Sri Lanka and Bangladesh, may offer insight into best practices through their development of public sector committees within their organizational structure. These committees provide a forum for greater engagement on issues related to public sector accountancy.

**SUPPORT TO PUBLIC FINANCIAL MANAGEMENT**

As many PAOs do not maintain a mandate or authority over the public sector, their services and activities are more geared toward the private sector. However, as noted above, some PAOs have developed public sector committees to strengthen the dialogue between their PAO and government stakeholders. Additionally, the Asia-Pacific region includes a number of PAOs with a specific membership focus on accountancy professionals in the fields of management accounting and public finance (e.g., Sri Lanka, Pakistan, and Bangladesh).

Greater guidance to PAOs on how they can better orient their activities toward the public sector may greatly facilitate the expansion of these activities. Additionally, sharing regional best practices may provide a model for PAOs with the capacity and interest to further support public financial management.

**LOOKING AHEAD: PRIORITY AREAS FOR PAO DEVELOPMENT IN THE ASIA-PACIFIC REGION**

Throughout the region, considerable efforts have been made by PAOs to strengthen the accounting and audit profession and raise the quality of financial information. However, much remains to be done in order to ensure more transparent, reliable, and comparable financial reporting and management.

Key challenges and success factors for PAOs in the Asia-Pacific region remain and engagement in these areas from the donor community through MOSAIC would help strengthen the capacity of PAOs and their ability to contribute to financial sector development, economic growth, and social progress.

- **To develop an effective and sustainable PAO,** good practice suggests that PAO mentoring between more- and less-established PAOs may offer benefits in transferring knowledge and providing highly effective and sustainable technical assistance.

Mentoring by more-established PAOs has had a successful history. For example, in the development of the Mongolian Institute of Certified Public Accountants, which was recently approved as a full member of IFAC, support and guidance was provided by a number of well-established PAOs, including the Japanese Institute of Certified Public Accountants, CPA Australia, the Association of Chartered Certified Accountants, and the Institute of Chartered Accountants of India.

Such mentoring has also been successful between PAOs in different regions where the PAOs have similar organizational characteristics or historical ties, as with the Institute of Chartered Accountants of England and Wales’ support of the Institute of Chartered Accountants of Bangladesh and the Institute of Chartered Accountants of Sri Lanka.

In developing PAO mentoring relationships, it is essential that the issues of language and culture not be overlooked. When properly designed, donor support for PAO mentoring may be a valuable tool in overcoming financial constraints and the challenges facing PAO advancement.

- **Strategic business planning is crucial to position PAOs in the marketplace,** identifying revenue-generating services, and increasing membership—all of which contribute to the ongoing sustainability of PAO operations. However, many Asia-Pacific region PAOs presently lack sound strategic business planning.

Lack of a strategic business plan can result in dues structures that are too low to finance core functions, membership bases too narrow to support necessary technical capacity, and inefficient or ineffective efforts at organizational development. Without an adequate financial base to support activities, a PAO has to rely on volunteers to conduct activities that would be more appropriately undertaken by full-time technical staff.
Operating in this fashion may lead to skill mismatches, operational inefficiencies, and delays, thus further weakening the impact of the PAO. Additional technical support to educate and guide PAOs through the process of strategic business planning could greatly enhance the sustainability of these organizations and their ability to contribute to financial sector development, economic growth, and poverty reduction.

- **Although most Asia-Pacific region countries have adopted or are converging with international standards, additional support is needed to further the level of implementation of these standards.**

  Many PAOs are working to strengthen their CPD systems and enhance the robustness of offerings. Additional support in this area, especially related to training and CPD courses on international standards, may further implementation. Additionally, support in the development of practical guidance on the use of international standards could provide enhanced understanding to practitioners. Although there is a great deal of material available on this subject, many times it does not address needs at the user level, in particular accounting technicians, and is not tailored to reflect specific national environments.

- **In countries where PAOs are very fragile or non-existent (e.g., Afghanistan, Timor Leste, and Lao People’s Democratic Republic), the development of a strong accounting-technician tier of the profession may offer multiple opportunities.**

  By developing an accounting technician sector, many PAOs could develop a stronger membership base, provide an education and certification system that better fits the needs of its economy, and offer an opportunity for PAOs to grow into more resource intensive activities (e.g., design, development, and operationalization of auditor certification systems). Additionally, for fragile countries where a majority of employment occurs in the public sector, the development of systems of accounting technician certification, and availability of these offerings to public sector employees, can greatly support strengthening public financial management. Additional efforts to support emerging accounting technician programs may be a key area for technical assistance efforts and support.

- **Regional accountancy organizations can be a source of valuable PAO support and technical assistance. However, additional support is needed to strengthen the capacity of these organizations before they can reach their full development potential.**

  Regional organizations, such as CAPA, SAFA, and AFA, are strengthening their role in the development of the profession both regionally and nationally. Tangible demonstrations of engagement in the development of PAOs in the region include CAPA’s support for an accountancy development conference in Vietnam and of an IFAC seminar on the success factors and challenges to PAO advancement throughout the Asia-Pacific region; SAFA’s workshop on sustainability reporting across the region; and AFA’s regional public sector conference.

  Although these organizations have made significant achievements, the regional and sub-regional need for their support greatly outweighs current capacity. Development assistance to strengthen regional accountancy organizations and their initiatives could have a significant impact on improving the capacity of Asia-Pacific region PAOs.

- **Additional support is needed to facilitate PAO orientation and contribution to public financial management issues.**

  As many PAOs do not maintain a mandate or authority over the public sector, their services and activities are naturally more geared toward the private sector. However, some PAOs (e.g., Sri Lanka and Bangladesh) have developed public sector committees to strengthen the dialogue between their PAO and government stakeholders. Further exploration of these examples and potential use country examples as models for other PAOs working to enhance engagement in this area may be especially helpful.

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12 CAPA (www.capa.com.my/article.cfm?id=593)
13 SAFA (www.esafa.org/NewsDetail.aspx?id=16)
14 AFA (www.aseanaccountants.org/news.asp?TITLEID=133)
A CLOSER LOOK AT PAO DEVELOPMENT: THE MONGOLIAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

The Mongolian Institute of Certified Public Accountants (MonICPA) strives to build accounting and auditing systems in Mongolia that are in compliance with international standards. MonICPA joined CAPA in 2000 and became an IFAC associate in 2003 (it is in the process of gaining full membership in IFAC).

In addition to MonICPA, there are other professional organizations for accountants in Mongolia, such as Mongolian Institute of Internal Auditors, Mongolian Institute of Management Accountants, and the Auditors’ Association. These organizations have limited resources and no professional qualifications or international affiliations.

Starting in 1993, Mongolia has received technical and financial support to strengthen its accounting and auditing laws and frameworks, which have enabled the country to make significant progress toward a market-oriented accounting system that follows good international practices. The major donors engaging in Mongolia on this issue include the ADB, AusAID, CPA Australia, Institute of Chartered Accountants of India, Japanese Institute of Certified Public Accountants, and the World Bank.

LEGAL AND REGULATORY FOUNDATION—THE PAO ENABLING ENVIRONMENT

The Accounting Law was first passed in 1993, with subsequent amendments in 2002, 2003, and 2006, and requires all for-profit and non-profit entities, including small- and medium-sized entities (SMEs), to prepare financial statements in full compliance with International Financial Reporting Standards (IFRSs).

The Law on Auditing, originally taking effect in 1997 and subsequently amended in 2001, 2003, 2005, and 2006, determines auditing principles and the processes and organization for registering audit firms, licensing CPAs, and auditing organizations and supervision of their activities. The law stipulates that only licensed audit firms are eligible to conduct audit services.

In addition to the Law on Auditing, there are audit regulations covered in sector-specific laws and regulations, including the Company Law, Banking Law, Insurance Law, and State Audit Law. The State Audit Law requires that the National Audit Office apply ISAs to all their audits.

Currently, the Ministry of Finance and Economy maintains a strong role in the control of the accountancy profession. Additional support to further strengthen MonICPA systems and encourage delegation of core aspects of the profession from the Ministry and to MonICPA may greatly enhance the development of the profession.

PAO ORGANIZATIONAL CAPACITY

MonICPA members elect the president once every four to five years. In addition to the president, there are a few full-time professional staff members as well as some part-time staff. Activities of the organization are carried out using a committee system, including committees for accounting, auditing, ethics, and training that report to the MonICPA Council. MonICPA ensures the sustainability of operations through revenue-generating activities, such as membership fees and providing training. MonICPA works closely with the Mongolian Professional Accounting Council, which reports directly to the Minister of Finance and the Accounting Division. MonICPA has only one membership category—CPA.

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

MonICPA is responsible for setting membership requirements, which it does in line with the provisions of the Law on Auditing. It is mandatory for CPAs and audit firms in Mongolia to become members of MonICPA. Article 12 of the Law on Auditing 1997 specifies that candidates wishing to undertake CPA training and sit for the examination must have a bachelor’s degree in accountancy and at least two years of work experience. Candidates who are graduates of disciplines other than accounting must have completed the required accounting credits and have four years of work experience.

Upon entrance into the examination scheme, the Law on Auditing requires that accountants pass the three-stage examination
over a seven year period to obtain the CPA designation—which they retain for life. To strengthen candidates in preparation for the exams, the program includes mandatory training modules conducted by MonICPA.

Candidates who want to become auditors must have three years of work experience as an assistant auditor at an audit firm and show evidence that they have not breached the Code of Professional Conduct while in their role.

The MonICPA Accounting Methodology Committee fully translated the International Education Standards (IESs) into Mongolian in 2011. In 2012, MonICPA reviewed and redeveloped the program and curriculum for pre- and post-CPA training to include requiring CPAs to complete 40 hours of CPD per year or 120 hours over a three year period. In line with the new curriculum, MonICPA has been updating and developing new textbooks on the subjects.

Additionally, MonICPA has engaged with universities in Mongolia to develop a unified accounting curriculum consistent with the IESs. MonICPA is planning to propose an amendment to the Law on Auditing to further bring Mongolia in line with the practical experience and other requirements of the IESs.

Additional support to raise awareness of the need for modifications to the law to align with best practices may greatly help improve the quality of the system and resulting education, assessment, practical experience, and CPD requirements. Additionally, efforts supporting implementation of these reforms, including the development of systems to monitor and track CPD achievement, programs to educate firms/business regarding practical experience for candidates, could greatly advance the impact of recent changes in Mongolia.

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

MonICPA initially translated and adopted the 2004 Code of Ethics for Professional Accountants (the Code), issued by the International Ethics Standards Board for Accountants (IESBA), with some modifications. Translation of the 2006 Code was completed in 2009 and approved by the MonICPA Council for adoption in late 2010. The Council has recently ruled to approve the Code for full adoption without modification.

To facilitate this decision, MonICPA completed its translation of the most recent version of the Code and obtained formal confirmation from a legal firm confirming its compliance with all relevant legislation in Mongolia. The adoption of the latest Code will be presented for approval to the Assembly of MonICPA in December 2012.

In light of these changes, additional donor support to MonICPA as it approves the updated version of the Code could greatly aid the process of adoption and implementation. In addition, technical assistance supporting training and guidance for professional accountants in application of the Code could greatly improve standards implementation and ethical behavior of professionals as well as the overall quality of financial reporting.

SUPPORT FOR ADOPTION AND IMPLEMENTATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

Paragraph 10 of the Accounting Law, “Composition of Financial Statements,” mandates that businesses prepare their financial statements in compliance with International Financial Reporting Standards (IFRS). Adoption of IFRSs is, therefore, mandatory in Mongolia. All IFRSs have been translated and are under translation-quality review. Completion of reviews was initially planned for early 2012; currently, the reviews are expected to be completed by September 2012. IFRSs for Small- and Medium-Sized Entities (SMEs) were translated in 2011 with formal permission from the International Accounting Standards Board. MonICPA has proposed an amendment to the Accounting Law in the definition of the size of entities to support implementation of IFRSs and IFRSs for SMEs, which is in line with the IFAC SMO on IFRS (SMO 7).

SUPPORT FOR ADOPTION AND IMPLEMENTATION OF INTERNATIONAL STANDARDS ON AUDITING

Mongolia adopted ISAs as part of the 2006 Amended Laws on Accounting and Auditing. The State Audit Office, with assistance from MonICPA, translated the ISAs into Mongolian and both private and state auditors are now required to follow ISAs.

MonICPA undertakes a wide range of activities to support adoption and implementation of accounting and auditing standards, including translation of both IFRSs and ISAs. In support of implementation, two audit manuals were developed by the MonICPA for reference by private and public auditors. MonICPA provides training on the ISAs to private auditors and the State Audit Office provides training to government auditors on the ISAs.

Due to limited resources, MonICPA is using its best endeavors to translate the Clarified ISAs and the clarified International Standards
on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, for adoption in coming years, although they have not yet been translated.

Donor backing for technical assistance supporting the activities of the MonICPA and the State Audit Office in translating and adopting the Clarified ISAs and ISQC 1, as well as assistance for auditor education, training, and guidance in the application of ISA could greatly improve implementation and the resulting quality of financial reporting and accountability.

**SYSTEM OF INVESTIGATION AND DISCIPLINE**

MonICPA shares responsibility for investigation and discipline of members with the Ministry of Finance. MonICPA Investigation and Discipline Procedures are outlined in its Code of Ethics, which are generally aligned with the key aspects of the IFAC SMO in this area (SMO 6). The procedures detail all required actions from receipt of a complaint against a member to a final decision. The Ethics Committee submits its decision to the MonICPA Council for approval. If the decision involves suspension or license removal, that decision must be referred to the Ministry of Finance for final determination. The Law on Auditing outlines three possible penalties for a CPA or auditor who is deemed to be in breach of the Code of Ethics: censure, suspension of audit license, and removal of CPA designation.

**QUALITY ASSURANCE**

The 1997 Audit Law has vested oversight of the auditing profession in the Ministry of Finance. Recognizing the need to fill a void and provide Mongolian firms with guidance on the maintenance of a quality control system and adoption of ISQC 1 and ISA 220, *Quality Control for an Audit of Financial Systems*, MonICPA decided to develop a quality assurance (QA) system.

MonICPA established an Audit Quality Review Team under its Audit Quality Subcommittee and developed and published two manuals providing guidance on the methodology and instructions for audit firms and MonICPA during a QA review. Among other requirements, each firm must recruit a quality control specialist. The Institute also developed an Audit Quality Review Questionnaire to provide guidance to the Audit Quality Review Team.

Although MonICPA has taken these first steps toward the development of a system of QA, additional support to implement and further refine this program could greatly further these efforts. Additionally, the current legal and regulatory framework does not facilitate the development of a system of quality assurance in line with the IFAC SMO on quality assurance (SMO 1). As such, support for MonICPA’s proposed amendments to current laws addressing legal framework is necessary for a system of quality assurance that is compliant with the IFAC SMO on investigation and discipline (SMO 6).

**SUPPORT FOR ADOPTION AND IMPLEMENTATION OF INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS**

Paragraph 10 of the Accounting Law, “Composition of Financial Statements,” requires all budget entities to prepare their financial statements in accordance with IPSAS and on an accrual basis. With support from the World Bank and ADB, the government adopted the 2003 version of IPSAS. To support compliance, the Ministry of Finance and MonICPA provide public sector entities with the current IPSAS handbook.

MonICPA actively supports translation of the IPSAS and provides training to professional accountants in the public sector. As of April 2012, translation of the most recent update of IPSAS is underway by the Ministry of Finance; translation should be completed by the end of 2012.

**SUPPORT TO PUBLIC FINANCIAL MANAGEMENT**

Since the Ministry of Finance controls the accounting and auditing profession in Mongolia, how and when the accounting and auditing profession and MonICPA participate in public financial management issues is at the discretion of the Minister. However, due to MonICPA's strong role in translation and promotion of IPSAS, MonICPA's contribution in this area may be valuable to the Mongolian government's ongoing efforts to strengthen its system of public financial management.
Understanding The Regional Context

With a population of 589 million and a Gross Domestic Product (GDP) of US$ 5.65 trillion, Latin America and the Caribbean (LAC) region is comprised of 32 countries. There are two free-trade zone agreements in the region—the North America Free Trade Agreement (NAFTA), covering the US, Canada, and Mexico, and the Central American Free Trade Agreement (CAFTA), covering the US and Central America—as well as a customs union—the South Free Market (Mercosur), created by Argentina, Brazil, Uruguay, and Paraguay with Venezuela as an associate country.

Although the region has enjoyed a period of rapid economic growth, poverty and economic inequality remain key challenges. Efforts to overcome these challenges have focused on strengthening investment in those sectors of the economy with the highest potential to create new employment opportunities and, consequently, more robust growth and poverty alleviation. The private sector plays a central role in creating wealth, income, and jobs and mobilizing domestic resources toward productive sectors, all of which contribute to eradicating poverty. The public sector is responsible for providing adequate infrastructure and an appropriate legal and regulatory framework conducive to
improving the availability and transparency of public information and promoting accountability.

In order for these sectors to support sound decision making for sustainable growth, additional efforts are needed to advance transparent and high-quality financial reporting practices. Support for the capacity-building efforts of professional accountancy organizations (PAOs) can have a marked impact on the financial sector development, economic growth, and social progress of LAC region countries.

The region maintains numerous organizations that can be considered PAOs—national level membership bodies comprised of individual professional accountants, auditors, and/or accounting technicians who perform a variety of roles in the field of public and private sector accountancy and adhere to high-quality standards of practice. Within the region, 25 PAOs have achieved associate or member status with the International Federation of Accountants (IFAC). Additionally, the region is also represented in IFAC by a Recognized Regional Organization and an Acknowledged Accountancy Grouping.

- **Asociación Interamericana de Contabilidad/Interamerican Accounting Association**

The Asociación Interamericana de Contabilidad/Interamerican Accounting Association (AIC) is comprised of PAOs from 21 countries throughout the Americas. AIC goals are to promote: a) a strong and coherent profession throughout the American continent enabling it to provide services of the highest quality to society and users; b) the comprehensive professional development of accountants; c) the encouragement of improvements in academic training; d) a focus on continuous improvement through training and adherence to the highest standards of professional behavior; and e) the dissemination and furtherance of the ethical principles of the accountancy profession.

- **Institute of Chartered Accountants of the Caribbean**

The Institute of Chartered Accountants of the Caribbean (ICAC) has PAO members from seven countries in the Caribbean sub-region. ICAC is the internationally recognized organization dedicated to advancing the interest of accountants and professionals in the finance industry within the Caribbean. ICAC advances the development of the profession through the promotion of internationally acceptable standards and best practices, thought leadership, research, and continuing professional development (CPD).

In addition to formal regional organizations, CReCER (Accounting and Accountability for Regional Economic Growth) has significantly affected the adoption and implementation of international standards and best practices in accountancy. CReCER is a public-private partnership between IFAC, the Inter-American Development Bank (IDB), the World Bank, and the Global Public Policy Committee. Since its founding in 2007, CReCER has expanded from an annual conference into a multi-dimensional initiative delivering studies and reports, such as *Accounting for Growth in Latin America and the Caribbean*; knowledge sharing events, including annual conferences and an online Community of Practice; technical assistance for accountancy reform through World Bank, FIRST initiative, and IDB support; and collaborative relationships and networks throughout the region. Through these mediums, CReCER supports the development of high-quality public and private sector accountancy environments throughout the LAC region, which encourage sound financial management, capable and competent professionals, strong legal and regulatory environments, and thriving PAOs—all of which advance financial and economic growth in the LAC region.

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3 IFAC members are required to support IFAC’s mission and programs; demonstrate compliance with the Statements of Membership Obligations; be financially and operationally viable and have an appropriate governance structure; make financial contributions to IFAC; and meet the other criteria described in the Membership Application Process, the IFAC Constitution, and the IFAC Bylaws. Associate status is open to professional accountancy organizations that do not yet meet all of the membership criteria but demonstrate commitment to meeting such criteria and progressing to membership. More information is available on the IFAC website (www.ifac.org/about-ifac/membership/becoming-member).

4 IFAC works with Recognized Regional Organizations and Acknowledged Accountancy Groupings, independent bodies that support the development of the international accountancy profession, facilitate convergence to international standards, and provide leadership in addressing issues affecting the accountancy profession in their region and/or constituencies. Regional Organizations support IFAC members and the profession within a specific geographic region; Accountancy Groupings bring together professional accountancy organizations with specific commonalities, such as language, culture, proximity, or trade. More information is available on the IFAC website (www.ifac.org/about-ifac/membership/member/regional-organizations and www.ifac.org/about-ifac/membership/member/groupings).  

5 More information is available on the AIC website (www.contadores-aic.org/).

6 More information is available on the ICAC website (www.icac.org/jm/index.php?option=com_content&task=view&id=18&Itemid=31).

7 The Global Public Policy Committee is the global forum of representatives from the six largest international accounting networks—BDO, Deloitte, Ernst & Young, Grant Thornton, KPMG and PwC.
Viewing Latin American and Caribbean Region PAO Development

Using the generally agreed upon essential elements as a reference point, a high-level view of the status of PAO development throughout the LAC region can be compiled. To present a picture of regional PAO development, a desk study review was conducted utilizing: a) IFAC Member Body Compliance Program assessments of regulatory and standard-setting framework, Statements of Membership Obligations (SMO) self-assessment questionnaires and SMO Action Plans; b) World Bank Accounting and Auditing Reports on the Observance of Standards and Codes (ROSCs); c) IFAC PAO Development Committee Strategy for Americas and the Caribbean Region, 2011-2014; and d) PAO websites.

LEGAL AND REGULATORY FOUNDATION—THE PAO ENABLING ENVIRONMENT

Many countries in the LAC region currently lack a strong legal and regulatory framework to enable the development of the accountancy profession and its related PAOs. Although the establishment of PAOs is permitted by law, the ability of PAOs to undertake core functions is greatly limited. For example, in Costa Rica, it is illegal to require candidates to pass a professional examination prior to PAO membership.

Membership in most PAOs in the LAC region is voluntary and is not legally required for practicing as a professional accountant or auditor (e.g., Bolivia, Chile, Ecuador, Paraguay, and Uruguay). As such, most legal frameworks do not reference the operation of systems of certification, licensing, quality assurance, and investigation and discipline of accountancy professionals.

For standard setting, most legal frameworks examined specifically identify a set of standards, which are not necessarily international, for use in private sector accounting and auditing. However, several PAOs in the region are legally empowered to issue binding accounting and auditing standards for the private sector. In general, standards issued by these PAOs are usually International Financial Reporting Standards (IFRS), IFRS for Small- and Medium-Sized Entities (SMEs), and International Standards on Auditing (ISAs).

Although some PAOs may not be empowered to set standards (e.g., Argentina, Costa Rica, and Ecuador), they have developed a strong collaborative relationship with those entities responsible for this function. However, the existence of a method for timely updates of accountancy standards is minimal, which calls into question the level of adoption and implementation of international standards and the level of consistency of financial reporting across the region. However, in the LAC region, with the exception of a few countries (e.g., El Salvador and Panama), the legal and regulatory framework does not provide for a functioning independent oversight board to oversee the audit profession.

These bodies play an important role in identifying and certifying highly qualified independent auditors. Another issue in some countries (e.g., Honduras, Panama, and Colombia) there two or more bodies claiming to represent accounting professionals. Although a two-tier system, such as that found in Brazil, Guatemala, and Honduras where one PAO represents the “bookkeepers” and another the professional accountants/auditors, can function reasonably well, in other countries the result of having multiple, competing PAOs could be a weakened profession.

PAO ORGANIZATIONAL CAPACITY

In many countries throughout the LAC region, PAOs suffer from governance and resource weaknesses that limit their capacity to undertake core functions and promote improvements in financial reporting and auditing practices. Although many PAOs maintain charters, constitutions, and bylaws, many of these need to be updated to reflect current best practices in organizational governance. Additionally, while LAC region PAOs typically have a Board of Directors providing direction for the organization as well as a general assembly to undertake core decision making, these bodies tend to lack adequate professional staff (including a professional chief executive officer) to undertake strategic planning and day to day management and activities of the organization.

PAOs address this challenge by leveraging volunteer efforts; however, additional support to build internal technical staff capacity within regional PAOs could greatly enhance the strategic planning and development of these organizations. Lack of technical capacity within PAOs is frequently connected to their

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8 Desk study review included information for the following countries: Argentina, Bahamas, Barbados, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Trinidad and Tobago, and Uruguay as these nations maintain and make available sufficient relevant and timely information.

9 Additionally, a very limited number of personal interviews were conducted where additional clarification was needed.

10 Brazil, Costa Rica, Guatemala, and Mexico require membership with the national PAO in order to practice legally.
lack of financial capacity. As previously noted, PAO membership is not mandatory to practice accounting and auditing in most nations and, consequently, there is no requirement for professional assessment and Continuing Professional Development (CPD).

As PAO financial resources are typically drawn from membership dues, examination fees, and provision of CPD trainings, this lack of formal recognition of the role of PAOs in the financial sector and a legal and regulatory environment enabling PAO functions greatly impacts financial resources, technical capacity, and contribution to the economy.

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

Considerable gaps currently exist between the requirements of the International Educations Standards (IESs), issued by the International Accounting Education Standards Board (IAESB), and the requirements for membership in most Latin American PAOs. At the heart of this issue is the lack of awareness of legislators, Ministries of Education, universities, the business community, and the profession on the importance of developing a professional certification system aligned with IESs.

In the Latin American sub-region, the main prerequisite for membership in a PAO, and/or recognition as a professional accountant or auditor, is a degree in accounting issued by a public or private university. Many times, accountancy curricula are out of date and do not include new or updated international standards. Therefore, in their self assessments and SMO Action Plans, many PAOs note the need to update and strengthen university accountancy education programs in line with international standards and best practices and are working with universities and Ministries of Education to address this issue. Lastly, there is also a need to focus more attention on enhancing the training of university professors on international standards.

In many countries and PAOs, there are no requirements for successful completion of a professional assessment, practical experience, or CPD—in fact, some PAOs are not legally permitted to enact such requirements. The lack of such requirements can be particularly damaging as it prevents PAOs from assessing and supporting the development of member knowledge, skills, professional values, ethics, and attitudes. Where possible, some PAOs have voluntary systems of assessment, practical experience, and CPD. However, additional support for the development of these programs remains, especially for enhancing program quality and developing systems that monitor program achievement.

In contrast to the situation in Latin America, Caribbean PAOs are generally aligned with IESs, due in part to enabling legal environments that allow PAOs to restrict membership to candidates that meet professional qualifications. Generally, PAOs in this sub-region rely upon the professional certifications provided by foreign PAOs.11 This may be due in part to the high cost of operating national certification systems as well as the high level of previously certified foreign professionals in the field. Finally, many PAOs fall short in terms of mandating and monitoring continuing education requirements. For this reason, it may be desirable to explore the inclusion of activities to address this deficiency through CReCER events.

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

Almost all PAOs have adopted some form of the *Code of Ethics for Professional Accountants* (the Code), issued by the International Ethics Standards Board for Accountants (IESBA), to guide the ethical behavior of professional accountants in public practice, business, and the public sector. Most of these codes are not presently in line with the most recent version of the Code and are typically revised versions issued in 2006 and 2009. The latest version of the Code includes changes regarding responsibilities of the individual in line with the requirements of International Standard of Quality Control (ISQC) 1, Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements.

As such, PAOs need to compare their codes of ethics with the latest version of the IESBA Code to identify any areas of divergence and consider updates to enhance alignment. An ongoing system that considers updates to the Code and adoption in the local context is required, and yet many times does not exist.

In many countries, there is little evidence that tenets of the Code are incorporated into university accountancy education. Additionally, as professional assessment and mandatory CPD
are frequently not required, there is no effective manner for determining the level of understanding and knowledge of professionals on ethical requirements. As systems of investigation and discipline of professionals are still relatively nascent, the degree to which ethical violations are linked to investigation and disciplinary outcomes is relatively weak.

**SUPPORT FOR ADOPTION AND IMPLEMENTATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS**

For most of the countries in the region, the responsibility for adopting IFRS, issued by the International Accounting Standards Board, rests with the public sector and are set by law or regulation by a standards setter. For example, the Securities Exchange Commission in Argentina, the CONASSIF in Costa Rica, and the Superintendence of Companies in Ecuador are responsible for setting accounting standards for regulated entities, (i.e., listed companies and financial sector entities, such as banking, financial companies, pension, and insurance). Overall, most countries have adopted, or are in the process of converging with, IFRS with few exceptions (e.g., Colombia, Ecuador).

Additionally, there is an increasing trend for the adoption of IFRS for Small- and Medium-Sized Entities (IFRS for SMEs) by LAC region countries, which may be a reflection of the significant role played by the SME sector throughout the region. In the Caribbean sub-region, many countries have adopted IFRS and IFRS for SMEs without modification, perhaps due in part to lack of linguistic barriers and the sophistication of the financial sector. Almost all PAOs play a role supporting the application of IFRS and/or IFRS for SMEs. However, there appears to be weaknesses in the area of implementation. Many PAOs are in the process of developing training, outreach, dissemination, and continuing education on IFRS to address these weaknesses. Additional support to these efforts could greatly enhance the understanding and application of IFRS in practice. Additionally, as with education and ethical standards, since there are no professional assessment or mandatory CPD requirements, there is no effective manner for ensuring professionals maintain appropriate understanding and knowledge of IFRS.

Some PAOs in the region (e.g., Argentina, Mexico, and Brazil) played a strong role in the translation of IFRS into local languages, which has enhanced adoption and implementation of these standards at the regional level.

**SUPPORT FOR ADOPTION AND IMPLEMENTATION OF INTERNATIONAL STANDARDS ON AUDITING**

International Standards on Auditing (ISAs), issued by the International Auditing and Assurance Standards Board (IAASB), have been adopted by 17 countries of the region. Although ISAs have been adopted in some countries, the version adopted and in practice may not always be the most recent version available. This may be due in part to challenges facing the timely translation of standards into Spanish and Portuguese.

Approximately 25% of PAOs reviewed through this desk study hold responsibility for setting auditing standards (e.g., Costa Rica, Guatemala, and Trinidad and Tobago). In Latin America, the degree to which ISAs are implemented is questionable due to the lack of professional assessment and mandatory CPD, as well as the general lack of quality assurance systems. In the Caribbean sub-region, PAOs tend to include ISAs in education, assessment, and CPD activities, as well as maintain systems for incorporating updates and modifications into these functions. Additionally, several PAOs participate in the Association of Chartered Certified Accountants (ACCA)/ICAC regional scheme for quality assurance to advance application of ISAs in practice. Caribbean PAOs further support ISA implementation through of communications regarding recent updates and modifications to the standards.

**SYSTEM OF INVESTIGATION AND DISCIPLINE**

Most Latin American and Caribbean PAOs maintain responsibility for investigation and discipline (I&D) of their members for misconduct or breaches of professional standards. Desk-study materials indicate that approximately half of the PAOs in the region have developed and implemented an I&D system. However, there are questions regarding the effectiveness and efficiency of how some of the systems are operated. Additionally, the level of alignment that these systems maintain to the structural requirements for I&D systems outlined in the IFAC SMO on I&D (SMO 6) remains unclear, especially as several PAOs have

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12 Of those countries/PAOs reviewed, Argentina, Bolivia, Dominican Republic, Ecuador, Haiti, and Colombia have not yet adopted these standards.
13 I&D systems are present in the PAOs in Argentina, Bahamas, Barbados, Costa Rica, Dominican Republic, Guatemala, Guyana, Haiti, Honduras, Jamaica, Nicaragua, Panama, Trinidad and Tobago, and Uruguay.
14 SMO 6 outlines the requirements for systems of investigation and discipline that includes guidance on sanctions, provision of information and guidance to members, liaison with outside bodies, initiation of proceedings, investigatory powers and processes, a disciplinary process, rights of representation and appeal, and administrative processes.
noted their ongoing efforts to review this system for operational effectiveness and conformity with the requirements. Additional efforts aimed at supporting the education of PAO staff and volunteers on the development of a system of I&D, establishing systems of I&D where none presently exist, and strengthening current systems to ensure effectiveness and alignment with SMO 6 may greatly enhance the capacity of PAOs in this area.

QUALITY ASSURANCE

Only 35% percent of the PAOs reviewed (i.e., Barbados, Brazil, Costa Rica, Guyana, Jamaica, Mexico, Trinidad and Tobago, and Uruguay) adopted the International Standards on Quality Control (ISQC) 1, Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements—a foundational aspect of the development of quality assurance (QA) systems. Most Latin American PAOs do not maintain a system of quality assurance. This relates to the legal responsibilities granted to PAOs in the region which generally do not permit the establishment and operation of a system of QA for PAO membership. As QA systems tend to be very resource intensive, they are typically seen in more-established PAOs. Within Latin America, only Brazil and Mexico maintain fully functioning systems of QA, while Costa Rica and Uruguay are adopting QA on a voluntary basis with implementation forthcoming.

Due in large part to the establishment at the regional level of a system of QA among ICAC members, several Caribbean PAOs maintain a QA system. Functioning of QA systems at the regional level, as pioneered by ICAC, may present a model for the development and operation of QA systems for countries throughout the region.

SUPPORT FOR ADOPTION AND IMPLEMENTATION OF INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS

The adoption and implementation of International Public Sector Accounting Standards (IPSASs), issued by the International Public Sector Accounting Standards Board (IPSASB), and support to public sector accountancy and financial management presents particular challenges in the LAC region as this is not typically an area of responsibility for PAOs and many PAOs are not orientated toward these activities. Additionally, a relatively low number of countries in the LAC region have adopted IPSASs. Although most PAOs do not have responsibility for the adoption of IPSASs, many are using their best endeavors to recommend the adoption and implementation of IPSASs by their governments. In those countries where IPSASs have been adopted, PAOs provided translations of IPSASs into local languages (e.g., Barbados); assistance to the Auditor General in reviewing public sector accounts for compliance with the IPSASs (e.g., Barbados); and input to enhance training for public sector employees (e.g., Cayman Islands).

Key areas where assistance may be most effective include supporting PAO efforts to raise awareness among government stakeholders of the benefits of IPSASs adoption, building PAO capacity to support ongoing efforts in the development and implementation of IPSASs translation plans, and strengthening PAO capacity in education and training to meet the needs of public sector accountancy professionals.

SUPPORT TO PUBLIC FINANCIAL MANAGEMENT

Although PAOs play a role supporting governments, regulators, and other stakeholders, both at the country and regional level with guidance and advice on accountancy related topics, support to strengthen this aspect of PAO activities could be very useful. In countries where IPSASs have been adopted, there has been more of an impetus for relations between PAO and government entities. For example, in Barbados where IPSASs have been adopted, the PAO maintains a Public Sector Committee to monitor and provide advice on public sector policies and programs related to financial management, accountability, productivity, and governance, as well as support IPSASs implementation. Additionally, PAOs that have a significant percentage of public sector accountancy members logically play a greater role in supporting public financial management issues. For example, the Ecuadorian PAO is very active in its support of the Servicio de Recaudaciones Internas (Internal Revenue Service) through training and consulting services to the staff on tax and accounting issues. It also has plans to increase its partnership with the Superintendence of Companies (the Superintendence of Banks and Insurance) as well as the Contraloria General de la Republica (Supreme Audit Institution) on training and education of international standards.

Only 35% percent of the PAOs reviewed adopted the International Standards on Quality Control 1—a foundational aspect of the development of quality assurance systems.

15 Barbados, Bolivia, Brazil, Chile, Costa Rica, Mexico, and Trinidad and Tobago
Greater guidance to PAOs on how they can better orient their activities toward the public sector may greatly facilitate expansion of these activities. Additionally, sharing of regional best practices in these areas may provide a model for PAOs with the capacity and interest to further support public financial management.

**LOOKING AHEAD: PRIORITY AREAS FOR PAO DEVELOPMENT IN THE LAC REGION**

Considerable efforts have been made by LAC PAOs to strengthen the accounting and audit profession and enhance the quality of financial information. Many PAOs in the region are adopting rules or accounting principles and best practices that are internationally recognized as appropriate for developing competent and capable accountancy professionals able to meet the demands of the market and government sectors. However, much remains to be done to strengthen the profession in order to ensure more transparent, reliable, and comparable financial reporting and management.

Key challenges for PAOs in the Latin America and Caribbean region remain and engagement in these areas from the donor community through MOSAIC would help strengthen the capacity of PAOs and their ability to contribute to financial sector development, economic growth, and social progress.

- **There is great need for additional efforts to update, clarify and strengthen country legal and regulatory environments.**

  One of the key challenges facing Latin American PAOs is a lack of legal recognition and enabling environment to support their function. A modern and comprehensive legal framework that: a) strengthens the role and function of professional accountancy organizations; b) clearly identifies and ensures ongoing adoption and implementation of appropriate financial reporting, auditing, ethical, and public sector accounting standards; and c) develops a system of oversight over the profession could greatly enhance the legal and regulatory foundation in LAC region countries and facilitate PAO capacity building in order to contribute to national economies.

- **Weak institutional capacity—most notably weak internal governance and limited engagement of stakeholders—creates significant challenges for PAOs.**

  Technical assistance in organizational-capacity building is needed to: a) improve internal governance and accountability of PAOs in the LAC region and b) improve their ability to provide high-quality services to members and governments. Technical assistance could use the IFAC Model Guide for Professional Accountancy Bodies, the IFAC Governance Self-Assessment for Professional Accountancy Organizations, and the IFAC International Good Practice Guidance, Evaluating and Improving Governance in Organizations, and offer support to PAOs as they apply these tools and develop measurable steps to strengthen their organizational governance and capacity.

  Additionally, support for PAOs to build internal staff and technical capacity could greatly enhance the ability of PAOs to develop in line with international standards and best practices.

- **The best tool for implementing these steps would be the development of a comprehensive strategic action plan.**

  Those PAOs that are currently members of IFAC are required to create a SMO Action Plan; however, additional technical support for PAOs in their development of measurable and achievable organizational strategic plans may greatly enhance the ability of these organizations to plan and achieve PAO development in a coordinated and progressive manner. Additionally, technical support is needed to provide PAOs with the capacity, knowledge, skills, and best practices to achieve the objectives in their strategic action plans would greatly advance the development of these organizations. Well-designed, appropriate, and achievable strategic action plans could be a

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16 The IFAC Model Guide for Professional Accountancy Bodies assists PAOs in setting principles of good governance for the establishment and functioning of their Council. The principles can be adapted depending on the general governance structure of the professional body and the responsibilities, powers, and other duties of the responsible bodies and individuals that are part of the governance structure, such as a general assembly or the president (www.ifac.org/system/files/uploads/PAODC/Model%20Guide%20for%20Professional%20Accountancy%20Bodies.pdf).

17 The IFAC Governance Self-Assessment for Professional Accountancy Organizations can be used to review how PAOs meet the principles and practices of good governance in the (UK) Code of Governance for the Voluntary and Community Sector and the Good Practice Guidance Evaluating and Improving Governance in Organizations, developed by the IFAC Professional Accountants in Business (PAIB) Committee (www.ifac.org/publications-resources/evaluating-and-improving-governance-organizations).

18 This International Good Practice Guidance from the IFAC PAIB Committee provides a framework and principles-based guidance for professional accountants in business and their organizations (www.ifac.org/publications-resources/evaluating-and-improving-governance-organizations).
A key challenge for PAO development in the region is the need to enhance accountancy education and training, as well as implementing a mandatory certification system in line with IESs.

be enhanced through development of an ongoing process to translate, review, and adopt new and updated pronouncements in a timely manner.

Although many LAC region countries, and their PAOs, have adopted international standards, the standards are frequently not the most recent version. There is a need for a coordinated translation process of international standards from English to Spanish and Portuguese.

This may be achieved effectively through regional-level efforts, such as: a) identifying a pool of experts throughout the region who can help countries and PAOs implement IFRS; b) partnering with organization such as the IFRS Foundation and IFAC to work closely with country and regional PAOs and development partners to establish the most efficient mechanisms possible for knowledge transfer on IFRS and ISAs; and c) identifying sources of funding for regional or country-level initiatives.

Donor efforts to develop and strengthen systems ensuring ongoing translation and timely adoption of standards would bolster the consistent adoption of international standards and the understandability of financial information throughout the region. This is perhaps another area for improvement that should be explored by donors, partner countries, and their PAOs.

• Although most countries have adopted international standards, the level of implementation of these standards is questionable.

Without functioning systems of professional certification and mandatory requirements for CPD, the level of knowledge regarding the application of international standards among PAO membership is questionable. Additionally, due in part to the lack of quality assurance systems and oversight boards, the degree of appropriate application of standards goes unchecked.

Professional certification systems and ongoing professional education function to ensure that professionals maintain the knowledge, skills, and abilities necessary to provide high-quality services and keep abreast of ongoing changes to standards and practices. Additional support from the donor community strengthening these systems and PAO capacity in these areas may greatly enhance the ability of professionals to appropriately apply international standards in practice and enhance implementation.

valuable resource to ensure progress and development in line with international standards and best practices.

• There is need for PAOs to upgrade professional accountancy education requirements.

A key challenge for PAO development in the region is the need to enhance accountancy education and training, as well as implementing a mandatory certification system in line with IESs. Although PAOs face challenges in legal environments, where possible, efforts toward the creation of voluntary systems of certification, QA, and CPD should be strengthened while simultaneously establishing legal mandates for entrance to the accountancy profession.

Additional support in this area may first focus on exploring best practices in professional certification in the region (e.g., Mexico and Brazil); facilitating knowledge transfer or mentoring between PAOs with more-developed systems and those with emerging systems; and providing direct technical assistance to PAOs that currently lack systems of certification. Technical assistance should focus on drawing together all key stakeholders involved in professional accountancy education (e.g., Ministries of Education, universities, providers of practical experience, and external providers of CPD) in recognition of the complexity of the challenges and the need for involvement from all stakeholders to address the challenges facing regional development of competent and capable professionals.

Additionally, exploring the degree professional certification could occur at the sub-regional level (e.g., Central American countries or Southern Cone Countries) may be useful. This could be an area for consideration given the significant amount of resources needed for the sustainable development, operation, and maintenance of a system of professional certification.

• Most LAC region countries have adopted international accounting, auditing, and ethics standards, but without a system to review and incorporate new and updated pronouncements, the benefits of international standards may be diminished.

The adoption of international standards presents a significant positive step toward strengthening LAC region financial reporting and management. However, its benefits, including cross-border comparability of financial information, would
• **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.

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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 Publicos 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.

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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...
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.

CPPAG 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.
Understanding The Regional Context

With a population of 407.6 million and a Gross Domestic Product (GDP) of US$ 3.616 trillion,¹ the Europe and Central Asia (ECA) region contains a broad and diverse grouping of countries which extend from Western Europe through Central, Southern, and Eastern Europe into Transcaucasia and Central Asia. The diverse yet highly interdependent economies of Europe and Central Asia have reached a critical juncture. While the advanced economies of the European Union (EU) are experiencing fiscal austerity and slower growth,² some of the emerging economies further east and in Central Asia are grappling with the pressures of rapid growth. To ensure continued expansion and economic gains, a sound financial infrastructure, complete with high-functioning professional accountancy organizations (PAOs) is necessary to provide a strong foundation for future development.

Currently, the ECA region maintains numerous entities that can be considered PAOs, national-level membership bodies comprised of individual professional accountants, auditors, and/or accounting technicians who perform a variety of roles in the field of public and private sector accountancy and adhere to high-quality standards of practice. Of these organizations, 70 organizations in 47 countries are IFAC members or associates. This breadth of organizations includes some of the largest and most-developed PAOs, as well as some of the newest and least developed.

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¹ The World Bank (http://data.worldbank.org/region/ECA)
Many countries in the ECA region have multiple PAOs that, at times, address the same sector of the profession (e.g., auditors). As the focus of MOSAIC activities is supporting the development of PAOs in emerging and developing nations to enhance the quality of financial reporting and management and reduce the reliance on country systems, this regional summary will focus on those countries and organizations within the ECA region where PAOs are less established and the countries require donor assistance.  

In addition to individual national-level PAOs, the ECA region maintains one IFAC Recognized Regional Organization, the Fédération des Experts Comptables Européens, and two IFAC Acknowledged Accountancy Groupings, the Fédération des Experts-Comptables Méditeranéens and the Eurasian Council of Certified Accountants and Auditors.

• Fédération des Experts Comptables Européens

Fédération des Experts Comptables Européens (the Federation of European Accountants, or FEE) represents the accountancy profession in Europe with 45 member PAOs from 33 countries, including all 27 member states of the EU and three member countries of the European Free Trade Association (EFTA). FEE has a combined membership of more than 700,000 professional accountants, working in different capacities in public practice, accountancy firms, businesses of all sizes, government, and education—all of whom contribute to a more efficient, transparent, and sustainable European economy. FEE’s objectives include analyzing and contributing to professional, regulatory and public policy developments of relevance to the profession; ensuring member bodies’ receipt of timely information; and offering leadership in representing the profession. FEE also promotes cooperation between its member bodies and actively works to further the public interest.

• The Fédération des Experts Comptables Méditeranéens

Fédération des Experts Comptables Méditeranéens (Federation of Mediterranean Accountants, or FCM) represents the accountancy profession in the Mediterranean area and has a membership of 21 PAOs from 16 Mediterranean countries, plus two associate members—the Association of Chartered Certified Accountants (ACCA) and the Fédération Internationale des Experts-Comptables Francophones (International Federation of Francophone Accountants). FCM member bodies are present in eight member states of the EU, and represent more than 320,000 professionals. Nineteen FCM member bodies are also IFAC associates or members. FCM’s mission is to promote cooperation among PAOs in the region, both in the private and public sector, and share knowledge and provide technical assistance to members to help them achieve and maintain high professional and quality assurance standards. FCM’s mission is to consider the professional themes in the regional context, with the ultimate goal of contributing to economic developments of the region and implementation of a more integrated and competitive market between Mediterranean countries.

• The Eurasian Council of Certified Accountants and Auditors

The Eurasian Council of Certified Accountants and Auditors (ECCAA) is a non-governmental, non-profit organization established by the PAOs of former Soviet Union countries to achieve mutual goals. The mission of ECCAA is to promote the development and increase the status of the accountancy profession and to promote the adoption and implementation of international standards, principles, best practices, and ethical behavior. ECCAA has 31 member PAOs in 11 countries of the Former Soviet Union. To date, the main prerequisite for membership is promotion of the USAID founded, Russian-language based Certified Accounting Practitioner/Certified International Professional Accountant (CAP/CIPA) accounting certification. ECCAA currently focuses on developing the

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3 In consideration of the objectives of the MOSAIC agreement and for the purposes of this report, the ECA region does not include European Union/European Free Trade Association countries (i.e., Germany, United Kingdom, and Sweden).

4 IFAC works with Recognized Regional Organizations and Acknowledged Accountancy Groupings, independent bodies that support the development of the international accountancy profession, facilitate convergence to international standards, and provide leadership in addressing issues affecting the accountancy profession in their region and/or constituencies. Regional Organizations support IFAC members and the profession within a specific geographic region; Accountancy Groupings bring together professional accountancy organizations with specific commonalities, such as language, culture, proximity, or trade. More information is available on the IFAC website (www.ifac.org/about-ifac/membership/member/regional-organizations and www.ifac.org/about-ifac/membership/member/groupings).

5 More information is available on the FEE website (www.fee.be)

6 More information is available on the FCM website (www.fcmweb.org)

7 Originally developed and funded by USAID, the Certified Accounting Practitioner/Certified International Professional Accountant (CAP/CIPA) program was transferred to ECCAA (and the CIPA Network) in 2007. In Central Asia and Ukraine, ECCAA and the CIPA Network carry on the legacy of the USAID Program, which provides professional accountancy assessment and certification in Russian. Successful participants can achieve two levels of professional
capacity of member PAOs as well as enhancing the CAP/CIPA certification. In recent years, there has been a significant increase in alignment with international standards and best practices among PAOs in ECCAA member countries.  

In addition to recognizing the regional bodies influencing accountancy, it is also important to recognize the strong role the World Bank Centre for Financial Reporting and Reform (CFRR), its supporting donors, and its partner organizations have had in furthering ECA-region PAO development in line with international standards and best practices. The CFRR, in cooperation with donors and partner organizations, provides knowledge services and capacity-development assistance to countries throughout the ECA region. Services include analytical and advisory guidance, learning and skill development, education and knowledge transfer, and technical assistance and institutional strengthening. The CFRR’s programs—such as the Road to Europe: Program of Accounting Reform and Institutional Strengthening (REPARIS) for South Central and South East Europe; Financial Reporting Technical Assistance Program; and support provided to the government of Azerbaijan’s Corporate and Public Sector Accountability Project—have strengthened the accountancy profession throughout the region.

### Viewing ECA Region PAO Development

Using the generally agreed upon essential elements as a reference point, a high-level view of the status of PAO development throughout the ECA region can be established. To create this picture of regional PAO development, a desk-study review was conducted utilizing: a) IFAC Compliance Program assessments of regulatory and standard-setting framework, Statements of Membership Obligations (SMO) self-assessment questionnaires, and SMO Action Plans; b) the IFAC PAO Development Committee Strategy for Europe and Central Asia; c) World Bank Accounting and Auditing Reports on the Observance of Standards and Codes (ROSCs); and d) PAO websites.  

#### LEGAL AND REGULATORY FOUNDATION—THE PAO ENABLING ENVIRONMENT

In reflecting on the legal and regulatory foundations that enable PAO development, there is great variety among the sub-regions which comprise ECA. As the countries of Southeastern Europe work toward EU candidacy and membership, there is a strong incentive for transposition of the EU financial reporting and statutory audit directives, related recommendations, and regulation. In response, many national legal and regulatory foundations support, or are in the process of orienting themselves to support, PAOs in undertaking their core functions (e.g., quality assurance, investigation and discipline).

Additionally, in furtherance of the EU Eighth Directive on Statutory Audit, many countries are establishing and strengthening independent audit regulators (IAR). As these countries work to align with EU directives, strengthen their PAOs, and establish IARs, there is a need to: a) reflect on key activities needed to ensure appropriate regulation of the profession; b) clearly define the division of responsibilities or areas of shared responsibility between a PAO and an IAR; and c) develop and implement systems that function with strong communication and coordination.

Additional support to the countries of Southeastern Europe for these activities may further support the development of a strong accountancy profession able to contribute to financial-sector development and economic growth. In Eastern Europe and Central Asia, efforts continue to be needed in raising awareness of the role of PAOs within the financial infrastructure of a country and the positive impacts that these organizations can bring to the economy. In addition, there is a need for PAOs and country stakeholders to develop sound legal and regulatory frameworks for accountancy that embody and
emphasize international standards and best practices; and clearly identifying the roles and responsibilities of PAOs and other relevant entities. Guidance and assistance in this regard may enhance the capacity, core function, and impact of PAOs within this sub-region.

**PAO ORGANIZATIONAL CAPACITY**

The majority of PAOs throughout the ECA region were established by written charter or constitution that outlines the organization’s remit. While most PAOs are governed by a Board of Directors, there is not always a clear division between the activities of the Board and those of staff. This may be partially due to the lack of professional staff and the need for Board and other volunteers to provide additional support to internal functions of PAOs. Most organizations maintain 2-5 professional staff and, although in some PAOs this may be adequate due to the small size of the country and/or profession, additional staff is necessary, especially in areas requiring technical expertise (i.e., quality assurance, translation, and provision of comments and feedback to international standards exposure drafts).

Most ECA region PAOs have a mission or vision statement to communicate their area of focus, which is usually available on their organizational website. However, the degree to which this mission or vision actually guides strategic planning is somewhat unclear. PAOs that are members of IFAC must create SMO Action Plans, the creation of which supports planning for further development and alignment with the SMOs and international standards.

For some PAOs in the region, the experience of creating their SMO Action Plan may be their first, and sometimes only, experience in strategic planning. Although SMO Action Plans are constructive in raising awareness among PAOs of the process of strategic planning, they are not a substitute for comprehensive organizational strategic plans that address governance, financing, and strategic positioning and growth. Additional support and assistance facilitating the development of organizational strategic plans may enhance achievement of development objectives, and strengthen PAOs in the ECA region.

Several PAOs maintain a high degree of volunteerism, which provides a base for achieving future progress. However, among some PAOs in Central Asia, volunteerism is lagging and PAOs are managed and operated by one or two individuals with little staff or volunteer support. This lack of professional staff combined with the lack of volunteerism threatens the ability of these organizations to provide high-quality services, support, and guidance to their membership.

In looking at the region as a whole, PAO membership bases can be characterized as moderate to strong, in large part due to the mandatory membership requirements for practicing that exist in several countries (e.g., Albania, the Russian Federation, and Serbia). However, for those countries where membership in a PAO is not a requirement to practice, PAOs continue to struggle to raise awareness of the value of membership, obtain government and market recognition, attract members, and implement best practices, such as quality assurance and investigation and discipline of members. Additionally, where legal restrictions exist and limit the scope of PAO membership, they can limit the ability of PAOs to further expand and develop a membership base that would sustainably support operations.

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

Accountancy education in the ECA region is typically undertaken at a university where students obtain requisite knowledge through studying economics, and in some cases accounting, as their concentration. Many PAOs work in coordination with relevant universities to support the enhancement of syllabi and inclusion of up to date materials and best practices.

Additionally, some PAOs have developed their own programs of education to supplement formal university education and/or allow for a broader candidacy, including allowing individuals with university degrees in areas other than economics or accountancy to be eligible for examinations. Several ECA region PAOs have worked in collaboration with other regional PAOs to create education and examination systems and some even maintain joint examination programs that allow for mutual recognition.

Most PAOs require a minimum of three years of practical experience prior to practicing. However, in some cases, although monitored, the quality of practical experience obtained is not always clear. Additional support in developing guides and training for employers and/or formal programs for assessing the quality of practical experience achieved may be useful in further developing the practical experience component of professional certification.

In many PAOs throughout the region, continuing professional development (CPD) is a formal requirement for membership but...
is not always linked to practicing rights. Therefore, suspension or expulsion from membership due to failure to achieve CPD may result in removal from membership but not termination of practicing rights. Additional efforts may focus on enhancing communication and coordination between PAOs, oversight bodies, and other relevant stakeholders related to CPD achievement and strengthening practicing requirements to include CPD.

Finally, an additional area for donor support may be in further developing the quality of CPD programs. Although CPD requirements exist in most cases, additional support to enhancing the quality of these offerings and their value in the practical application of international standards may greatly enhance the quality of financial information.

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

In most ECA region countries, the Code of Ethics for Professional Accountants (the Code), issued by the International Ethics Standards Board for Accountants (IESBA), has been adopted for accountancy professionals. In many cases, however, due to translation issues and time lags in acquiring local-language versions of the Code, the adopted version is not always in line with the most recent version. In some cases, there is a system for consideration of updates to the Code and translation and adoption of updates. However, in most cases an ongoing system has not yet been developed; the Code is updated on an ad-hoc basis.

In their SMO Action Plans, most PAOs note efforts to incorporate the Code and modifications/additions into their education, assessment, and CPD activities. However, the degree to which this is undertaken is frequently affected by the regularity of updates to legislation, where part of the Code is embodied in legislation, as well as availability of translations of the Code. In many cases, the PAO translates the Code directly or cooperates with a same-language peer PAO. Additionally, many PAOs struggle with linking the Code to their investigation and disciplinary systems. Additional support to strengthen the capacity of PAOs in ethics training and CPD and strengthen linkages between breaches of professional ethics and sanctions through investigation and discipline systems may greatly facilitate further development of the profession.

**SUPPORT FOR ADOPTION AND IMPLEMENTATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS**

In most ECA region countries, as with the Code of Ethics for Professional Accountants, International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB), have been adopted for corporate financial reporting. This is due in large part to significant donor-financed projects undertaken in the 1990s and early 2000s. Due to translation issues and time lags in acquiring local-language versions of the standards, the adopted version of the standards is not always the most recent version. In some cases, there is an ongoing system for consideration of updates to the standards and adoption into the local context. However, in many cases an ongoing system has not yet been developed and standards are updated on an ad-hoc basis.

This creates significant challenges in terms of consistency and comparability of financial reporting across the region. Most PAOs work to incorporate IFRSs and modifications/additions to IFRS into their education, assessment, and CPD activities but this is affected by the frequency of updates to legislation and availability of translations. In many cases, the PAO, who has expertise in financial terminology and may have English-language capacity, may facilitate translation of IFRSs. However, this is a resource-intensive activity both financially and technically. Additional support to the development of ongoing systems for identifying, translating, and incorporating updates/additions to IFRSs would be greatly beneficial. Additionally, enhancing the capacity of PAOs to undertake training and education on IFRSs could advance the level of knowledge and understanding and impact implementation of the standards.

International consensus generally favors the use of IFRS but recognizes the benefits of limiting its use to financial reporting by public-interest entities (PIEs). IFRS for Small- and Medium-Sized Entities (SMEs) offers an efficient policy instrument that fosters bookkeeping and reporting practices that meet the needs of the local economy. Supporting partner-country efforts to adopt and implement IFRS for SMEs (as opposed to full IFRS) for non-PIEs may reduce the difficulties faced by businesses, accountants, and public authorities (including those in tax administration) in applying IFRSs.

Similarly, the use of IFRS for SMEs may not be an appropriate policy instrument to establish basic accounting requirements for micro-entities. In recognition of the need for a basis of accounting
that is more “fit to the purpose” of micro-entities, the EU has recently adopted a micro-undertaking accounting directive aimed at introducing a very simple set of annual accounts for micro-entities. Additional support to PAOs and partner countries exploring the adoption and implementation of IFRS for SMEs and the emerging EU micro-undertaking accounting directive to address the needs of entities operating outside of the PIE threshold may offer opportunities for strengthening accountancy framework, the application of international standards, and the benefits offered to ECA region economies.

**SUPPORT FOR ADOPTION AND IMPLEMENTATION OF INTERNATIONAL STANDARDS ON AUDITING**

In most ECA region countries, International Standards on Auditing (ISAs), issued by the International Auditing and Assurance Standards Board (IAASB), have been adopted for statutory audits. However, as with other international standards, in many cases, translation issues and time lags in translations result in the adopted version of the standards being misaligned. In some cases, there is an ongoing system for adoption. However, a system has not yet been developed and standards are updated on an ad-hoc basis in many other cases. This, too, creates significant challenges in terms of consistency of financial information across the region.

Most PAOs are incorporating ISAs and updates/additions into their education, assessment, and CPD activities but this is impacted by the slow pace of the legislative process and availability of translations. In many cases, the PAO, who has expertise in financial terminology and may have English-language capacity, may facilitate translation of ISAs. This is, however, a financially and technically resource-intensive activity.

Additional support to the development of ongoing systems for identifying, translating, and incorporating translations to ISAs would be greatly beneficial. Additionally, efforts enhancing the capacity of PAOs to undertake training and education on ISAs could advance the level of implementation of the standards throughout the region.

**SYSTEM OF INVESTIGATION AND DISCIPLINE**

Most ECA region PAOs maintain a system for investigation and discipline (I&D) of their members; however, many of these programs diverge from the requirements of the IFAC SMO on I&D (SMO 6). These divergences are mainly in the construct of the system (e.g., systems are not designed to maintain separate panels for investigation, discipline, and appeals) and/or in its functionality (e.g., few cases are heard).

Additional technical support and assistance to building and strengthening systems of I&D to ensure proper construct could be very useful to furthering high-quality financial reporting. Additionally, donor assistance for: a) raising awareness among PAO leadership and members regarding the importance and role of I&D in the proper functioning of a profession; b) providing support to the design of I&D systems in line with the requirements of SMO 6; c) ensuring proper education in the function of I&D systems; and d) providing technical support and guidance to fledging systems, especially in cases involving a breach of professional ethics, could be very useful to enhancing the operation of these systems.

One challenge facing the proper functioning of I&D systems is ensuring that disciplinary sanctions have a real consequence in practice. The strongest sanction that can be applied by a PAO is expulsion from membership. In countries where PAO membership is legally required to practice or where there is strong market recognition of the value of membership, expulsion from membership can have a real consequence in terms of economic livelihood and can function to remove low-quality services and unethical practices from the economy. For those PAOs that do not have mandatory membership or are struggling to maintain a presence in the market, expulsion from membership does not deter the provision of low-quality services or unethical practices. In such instances, additional support strengthening legal and regulatory environments and enhancing communication and coordination between PAOs and regulators may advance the function of PAO investigation and disciplinary systems.

**QUALITY ASSURANCE**

Across the region, the level of development of systems of quality assurance (QA) is moderate to low; however, there are certain sub-regions where development of QA systems is progressing more rapidly. In particular, in Southeastern European countries where EU accession has been identified as a national priority, notable progress has been made in the design and establishment of systems of QA in line with the requirements of the EU Eighth Directive. Many systems in this sub-region are either being developed or are in their first or second year of operation.

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*Most ECA region PAOs maintain a system for investigation and discipline of their members; however, many of these programs diverge from the requirements of the IFAC Statements of Membership Obligations.*
In other sub-regions, PAOs are still in the early stages of raising awareness of the importance of quality assurance; translating and educating membership and stakeholders on relevant international standards and best practices in quality assurance; and working with governments and Ministries of Finance to commence design of a system (e.g., Ukraine and the Kyrgyz Republic).

Robust audit QA systems not only have a direct effect on the quality of audit practices but they also have the potential to enhance the profession’s reputation vis-à-vis the authorities, business community, and the public at large by showing that the profession holds itself accountable for adhering to high-quality standards of practice.

Additional support focused on coordinating efforts between the stakeholders involved in QA (e.g., government, oversight boards, and PAOs) may be especially helpful in assisting these countries to develop successful QA regimes. Additionally, in countries where the national profession may be too small to maintain independence in QA reviews, cross-border cooperation between PAOs of different countries that share a common language may minimize potential conflicts of interest and enhance the function of QA systems. Such efforts have been undertaken successfully by the Kosovar and Albanian PAOs to ensure strong QA within their organizations.

**SUPPORT FOR ADOPTION AND IMPLEMENTATION OF INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS**

Most PAOs in the ECA region do not hold responsibility for setting public sector accounting standards. Additionally, most governments have not yet adopted nor implemented International Public Sector Accounting Standards (IPSAS), issued by the International Public Sector Accounting Standards Board (IPSASB), although some governments—notably those of Albania, Armenia, Azerbaijan, Bosnia and Herzegovina, Georgia, Kazakhstan, Kyrgyz Republic, and Turkey—have developed plans to introduce these standards.

As seen through their SMO Action Plans, PAOs in these countries play a key role in providing information on the latest activities of IPSASB and any new or modified IPSASs; raising awareness of the trends and developments occurring in the field of public sector accounting; and volunteering support for translation of IPSAS for consideration and use by government.

Some PAOs have incorporated IPSASs into their training and education programs to begin educating professionals on these standards ahead of adoption. Additional technical and financial assistance could be very useful in bolstering the efforts of those PAOs active in supporting IPSAS adoption and implementation. For PAOs not yet engaged in this area, support to orient these organizations toward the need for further support to public sector accountancy efforts could aid in both building PAO knowledge and understanding and impacting public sector accountancy.

**SUPPORT TO PUBLIC FINANCIAL MANAGEMENT**

The level of support PAOs are presently providing to public financial management (PFM) is relatively low in the ECA region. The position that PAOs maintain in the financial infrastructure of a country, however, provides great opportunity for leveraging these organizations to advance PFM development. Although the level of support is low overall, the region does contain excellent examples of PAO public-sector support, which can be used for South-South learning and further development of PAO capacity in this area.

For example, the Society of Certified Accountants and Auditors of Kosovo (SCAAK) has cooperated with the Ministry of Economy and Finance of Kosovo to establish the Public Financial Management Training Program, passage of which is required for every public sector financial officer. The program aims to train current financial officers in the public sector with necessary skills to improve the financial management and financial reporting in the public sector. Additionally, SCAAK will launch a new project to train finance officers in Kosovo in collaboration with United States Agency for International Development (USAID) and in coordination with the UK Chartered Institute of Public Finance and Accountancy (CIPFA).

Additional technical and financial assistance could be very useful in bolstering the efforts of PAOs active in supporting public financial management education, training, and development. For those PAOs not yet active in this area, support orienting this faction toward the need for support of public financial management, especially in education and training, could aid in building PAO knowledge, understanding, and future efforts.
**LOOKING AHEAD: PRIORITY AREAS FOR PAO DEVELOPMENT IN THE ECA REGION**

Considerable efforts have been made by PAOs in the ECA region to strengthen the accounting and audit profession, raise the quality of financial information, and enhance the transparency, reliability, and comparability of financial reporting and management. However, much more remains to be done and requires support.

Key challenges for PAOs in the Europe and Central-Asia region remain and engagement in these areas from the donor community through MOSAIC would help strengthen the capacity of PAOs and their ability to contribute to financial sector development, economic growth, and social progress.

- **Several PAOs in EU/EFTA countries participate in regional accountancy reform efforts and engage in formal and informal mentoring relationships with other PAOs in the region; there is great interest in increasing such engagement.**

PAOs in EU/EFTA countries, such as France, the Netherlands, and the United Kingdom, maintain systems of quality assurance, investigation and discipline, and adoption and implementation of international accountancy standards that are, in many cases, seen as examples of global best practice. In recognition of the value of sharing knowledge on the development and operation of these systems with regional peers, PAOs in these countries undertake mentoring and/or informal knowledge sharing activities to support the development of the ECA region profession. Additional donor support to PAO mentoring activities may offer an effective and efficient manner for supporting PAO development throughout the region.

- **As the countries of Southeastern Europe work toward EU candidacy and membership, there is a strong incentive for transposition of the EU financial reporting and statutory audit directives, related recommendations, and regulation.**

This has focused PAO attention in recent years on the adoption and implementation of international standards and incorporation of best practices accounting, auditing, and PAO development. As such, accountancy reform efforts are strong and PAOs actively seek additional support in this area.

- **Although several EU candidate and accession-oriented countries have begun the process of implementing the EU Eighth Directive on Statutory Audit, many continue to face challenges in relation to sourcing practical examples of establishment and strengthening of a system of quality assurance, supporting the development of independent audit regulatory arrangements, and facilitating the division of responsibilities between the profession and the IAR.**

The starting point in addressing the establishment of a (QA) system is through legislative arrangements clarifying the nature and scope of independent audit regulation versus overall oversight of the audit profession and the respective responsibilities in the process. A key success factor in implementation of effective, professional QA will be cultivating strong collaboration between government, regulators, PAOs, and other stakeholders while taking into account specific requirements related to independent audit regulation.

Specifically, donor-funded projects could support: 1) technical assistance from expert institutions helping PAOs design suitable and sustainable QA systems in close coordination with their respective IAR; 2) introducing robust audit inspection processes and methodologies; 3) delivering training courses for QA inspectors; and 4) providing assistance to PAOs in the development of quality control practices among small- and medium-sized practices (SMPs). Reform projects and programs addressing the development of quality assurance, both in terms of independent audit regulation and PAO responsibilities, in a comprehensive manner may reinforce the importance of collaboration and cooperation among stakeholders and help ensure sustained success post-project close.

- **Although most ECA region countries have adopted international standards, including IFRSs, ISAs, and the Code of Ethics for Professional Accountants, additional support is needed to further the level of implementation of these standards.**

Many PAOs are working to strengthen their CPD systems and enhance the robustness of offerings. Additional support to this area, especially related to training and courses on international standards, may further implementation. Additionally, support in the development of guidance on the use of international standards in practice could provide enhanced understanding for practitioners.
• **The adoption and implementation of IPSAS and support to public sector accountancy and financial management presents particular challenges as many PAOs do not hold a remit to engage in these activities.**

PAOs in ECA region countries typically do not have the ability to set accountancy standards for the public sector and, in some cases, their support to public sector accountancy and financial management reform may even be limited by law. When PAOs are able to function appropriately in this area, they offer expertise and resources supporting governments in the development of public sector accountancy and financial management, provide comment and feedback on proposed reforms and legislation, and undertake training and education in these areas. Assisting PAOs in understanding and orienting their activities to support the adoption and implementation of IPSAS and, more importantly, their government’s efforts at strengthening public sector accountancy and financial management are greatly needed to facilitate PAO contribution.

• **Additional assistance is needed to strengthen the internal governance, structure, and sustainability of PAO operations throughout the ECA region.**

In most ECA countries, the institutional capacity of PAOs is severely hampered by their inability to mobilize adequate resources, structure and operate their organizations appropriately, and maintain sufficient governance over operations and activities. Weaknesses in governance within some PAOs in the ECA region are significant enough to possibly preclude them from playing a leading role in any technical assistance effort supporting accountancy development. As such, efforts that focus on strengthening PAOs and supporting their role in advancing accountancy development throughout their countries and regions may greatly further the overall impact and role they may play in this regard.

• **Although accountancy reforms in the Transcaucasia region have progressed at a slower pace compared to some republics of the former Union of Soviet Socialist Republics (USSR), recent reforms as well as renewed interest in enhancing business-enabling environments provide promise.**

Political factors (e.g., the continued dispute between Armenia and Azerbaijan regarding the status of the Armenian enclave within Azerbaijan and recent conflict in Georgia) have contributed to a relatively slower pace of accountancy and PAO development in these countries. Recently, however, legislative reforms in Armenia and a renewed interest in enhancing the business-enabling environment of Georgia, including accountancy, have aided PAO advancement and donor assistance has played a strong role in stimulating development of the profession.

• **Adoption and implementation of international standards have been delayed to some degree due to translation barriers.**

In order to overcome translation barriers, many PAOs work with same-language PAOs to coordinate and pool efforts in the translation of standards (e.g., Albania and Kosovo). Additional efforts may be needed to support PAOs tasked with translation responsibilities, especially where peer-country coordination efforts could enhance the timeliness and quality of resulting translations. This may be particularly crucial for certain ECA countries that rely primarily on translation of materials into Russian.

• **Throughout the ECA region, the degree to which PAOs understand and embody the concept of serving the public interest varies greatly.**

Many PAOs in this region were originally established as for-profit ventures. As such, the concept of operating “in the public interest” is still relatively new among some PAOs. Although there has been much effort and progress made in reinforcing this concept, there are opportunities for improvement. Efforts supporting PAOs in understanding the concept of the public interest, orienting themselves in this manner, and applying this orientation in practice may greatly aid PAOs in operating as centers of excellence for their financial sector, economy, and country.
A CLOSER LOOK AT PAO DEVELOPMENT: THE GEORGIAN FEDERATION OF PROFESSIONAL ACCOUNTANTS AND AUDITORS

The Georgian Federation of Professional Accountants and Auditors (GFPAA) is the non-governmental, non-profit organization representing the accountancy profession in Georgia. Established in 1998 through the merger of the Georgian Club of Accountants and the Georgian Association of Accountants, GFPAA is the main body uniting the accountancy profession in Georgia. GFPAA includes more than 20 corporate members (i.e., auditing firms) and approximately 6,000 individual members, more than 500 of whom maintain recognition as Professional Accountants. GFPAA achieved membership in IFAC in 2000 and has continued to undertake strong reforms to strengthen its organization and the country’s accountancy environment.

LEGAL AND REGULATORY FOUNDATION – THE PAO ENABLING ENVIRONMENT

Georgia maintains a strong legal and regulatory foundation supportive of the development of the accountancy profession and its relevant PAOs. The strength of the PAO enabling environment is largely drawn from the recent adoption of the amended Law on Accounting and Audit (2012), a core aspect of which is the creation of a PAO accrediting body that will oversee and provide accreditation to the PAOs operating in Georgia. The criterion for PAO accreditation envisioned by this law is PAO membership in IFAC. As GFPAA is the only IFAC member body in Georgia as of 2012, it is the only PAO that will satisfy the criterion for accreditation envisioned.

The new law also provides GFPAA with more regulatory authority over the audit profession, QA, and disciplinary functions. Although the law does not require compulsory membership in GFPAA, it does require audit firms maintain membership if they wish to be included in the state register of auditors.

Additionally, this law further refines the legal framework for accounting, financial reporting, and audit in Georgia by defining the legal and institutional framework for accounting and reporting; the levels of financial reporting; and the rules and conditions for external audits. As one of its key activities, GFPAA seeks to continue working with legislators to strengthen the legal and regulatory environment in line with international standards.

A key area for donor efforts will be supporting the implementation of this new legislation and the impacts it will have regarding capacity building needed to prepare professionals that have the knowledge and skills to apply international standards.

PAO ORGANIZATIONAL CAPACITY

GFPAA is a self-financed organization with a sound organizational structure with operations in over 10 regions in the country. GFPAA’s constitution outlines its remit and includes a chairman and 12-person Board to guide and direct its activities. The day to day management of GFPAA is overseen by an executive director along with a staff of 20.

GFPAA has a formal strategy focused on promoting international standards with a view to improving the Georgian business environment. This link between GFPAA’s activities and national economic development strengthens its delivery of valuable functions and services for both its membership and the country. GFPAA maintains a modern committee structure, including committees for undertaking education, ethics, quality assurance, and the adoption and implementation of international standards. Generally, each committee is chaired by one of the members of the Board.

GFPAA has a culture of strong volunteerism, which helps advance the objectives and goals of its committees and the overall purpose of the organization. In addition to its boards, committees, and volunteers, GFPAA advances the knowledge and understanding of its members through its training center, the Institute of Professional Accountants.

The Georgian Federation of Professional Accountants and Auditors is the non-governmental, non-profit organization representing the accountancy profession in Georgia.
PROFESSIONAL EDUCATION, ASSESSMENT, PRACTICAL EXPERIENCE, AND CONTINUING PROFESSIONAL DEVELOPMENT

GFPAA works in strong coordination with the ACCA to undertake professional certification. GFPAA requirements for entry into the program of professional accountancy education include a university degree. In recognition of the importance of support for curriculum strengthening at the high school and university level in Georgia, in 2008 GFPAA signed a memorandum of cooperation with economics-oriented high schools and Tbilisi State University (TSU). This agreement supports GFPAA's fulfillment of requirements of the International Education Standards (IESs), issued by the International Accounting Education Standards Board (IAEBS) and to strengthen syllabi in line with Level I ACCA training programs.

Additionally, since 2009, GFPAA professional members have provided lectures for economic faculty students of TSU in financial accounting and reporting with the support of GFPAA. In developing its Georgian-language education and assessments, GFPAA looked to the ACCA program as a model. As such, its certification draws heavily upon ACCA coursework and exams.

In structuring its system of certification, GFPAA also incorporated the various tiers of the profession, auditor, accountant, and technician, to allow for various levels of certification and knowledge attainment. This helps provide professionals with certification that is “fit for purpose” and appropriate for meeting the needs of the public and private sector.

Professional assessments are conducted by the GFPAA, uniform for all students, and given in written form. Assessment questions are set by a group of experts from GFPAA consisting of both members and non-members to allow for a variety of perspectives and expertise. Assessments are offered on a biannual basis. In 2008, through the strong efforts of the GFPAA to develop its professional certification program in line with ACCA, GFPAA was granted nine exemptions by ACCA from the ACCA 14 exam certification scheme. Additionally, GFPAA received exemptions for the GFPAA Certified Bookkeeper Certificate and the GFPAA Certified Accounting Technician from the ACCA certification program.

GFPAA currently requires CPD for its membership. GFPAA’s focus is on further developing its system of CPD in line with IESs and international best practice.

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

The GFPAA has adopted the 2006 version of the IESBA Code of Ethics for Professional Accountants (the Code) for its membership, after translating these standards into Georgian and making small allowances to adjust for the Georgian legal environment. The new Law on Accounting and Audit (2012) requires the application of the Code by all professionals. Consequently, the most recent version of the Code will be translated into Georgian and registered in law accordingly.

The new legislation included the option for utilizing the English language version of the Code, and other international standards, if the most recent version of the international standards is not available in Georgian.

GFPAA continues to maintain ongoing compliance with the Code in accordance with regulations. Additionally, GFPAA will work to ensure that all ethical requirements are included among training and education materials to enhance awareness and understanding among membership.

SUPPORT FOR ADOPTION AND IMPLEMENTATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

Recent passage of the Georgian Law on Accounting and Audit (2012) requires public interest entities (e.g., banks, insurance companies, listed companies, large private companies) to apply IFRS, private SMEs to apply IFRS for SMEs, and micro-entities to apply specially designed standards for their reporting purposes. The current timetable for implementation envisions application of IFRS among public interest entities in 2013 with the requirement for application of IFRS for SMEs beginning in 2015.

Although IFRS has been required since 2000 in Georgia, the implementation of these standards has concentrated mainly among large, international, and/or listed firms. Therefore, this legislation presents a significant need for additional education, training, and capacity building within the accountancy profession. Although GFPAA translates the standards as well as promotes

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13 Certification includes professional education, assessment, practical experience and CPD.
their application through its education, training, assessment, and CPD activities, additional donor support for GFPAA is needed in light of significant changes in financial reporting.

Support to GFPAA may focus on facilitating the transition of companies to IFRS, IFRS for SMEs and/or micro-entity reporting standards; designing and developing training materials; and providing training courses, educational programs, and technical guidance to enhance the application of international standards.

**QUALITY ASSURANCE**

Under the old law, the Auditing Council of the Parliament of Georgia was entrusted with the QA of audit services in Georgia. To meet the IFAC SMO on QA (SMO 1), GFPAA revised its constitution in 2006 and adopted corporate membership in order to conduct QA review within its corporate members (i.e., member audit firms) through its own system. The development of a QA system progressed during this time; however, much more remains to be done to ensure the development and operation of a strong system.

The new law grants GFPAA with legislative authority for QA and requires all firms interested in undertaking audits of public interest entities participate in this program. Although the GFPAA has made some progress in the development of its QA system, it needs to reorient its activities to be in line with the new requirements. To this end, the GFPAA has developed a working group comprised of eight individuals to determine how the QA program and its related Quality Control Committee may be structured and function in line with IFAC SMO on I&D (SMO 6) requirements and the new law.

As GFPAA works to develop its system in line with international best practice, SMO 6, and Georgian law, additional donor support in the form of technical assistance for development of the system and processes related to QA, development of manuals and trainings, and education of Georgian auditors ahead of the launch of the system will be extremely important to ensure the development of a strong, well-functioning system that operates to enhance the quality of financial reporting. Additionally, support through PAO mentoring focused on QA systems, design, and operation may greatly enhance the development of the GFPAA system as well positively impact the overall quality of audit services.

**SYSTEM OF INVESTIGATION AND DISCIPLINE**

Under the old Audit Services Law, passed in 1995, responsibility for I&D of audit professionals rested with the Council of the Parliament of Georgia. Prior to the current law, no activities were undertaken to develop and implement a system of I&D.

Within GFPAA, I&D activities were restricted to introducing activities that could be undertaken by the Membership and Ethics Committee. Operationalization of this very limited system was minimal—no cases were ever heard. According to the new law, I&D authority now rests with the GFPAA.

As the GFPAA works to design and develop its system of I&D, additional donor support in the form of technical assistance for development of an I&D system and processes could be especially helpful. Additionally, support in the form of a PAO mentoring relationship that focuses on I&D may provide a platform for transferring knowledge, experience, and lessons learned in the design, development, and operation of an I&D system.

**SUPPORT FOR ADOPTION AND IMPLEMENTATION OF INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS**

According to Georgian legislation, the Ministry of Finance of Georgia is responsible for establishing public sector accounting standards. IPSASs are not presently adopted in Georgia.

The current accounting system for the public sector is largely based on the system utilized during the Soviet period. Over the past few years, the main role of GFPAA in supporting the adoption and implementation of IPSAS has been in raising awareness of
the standards, their benefits, and their potential adoption among Georgian government stakeholders.

According to the Strategic Plan of the Ministry of Finance of Georgia, implementation of IPSAS in Georgia will be finalized by the year 2020. In preparation for IPSAS adoption, the Ministry of Finance has announced a tender on translation of IPSAS. GFPAA proposed undertaking these efforts.

As Georgia moves to adopt and implement IPSASs, it will need massive retraining of public sector accountants. Supporting the development of educational and training programs within the GFPAA to address the emerging demands of the public sector may help facilitate a smooth transition to the standards and ensure strong knowledge and understanding of the standards among public sector accountants.

SUPPORT TO PUBLIC FINANCIAL MANAGEMENT

GFPAA has been an active supporter to the capacity-building efforts of the government sector of the accountancy profession. GFPAA worked with the Georgian Supreme Audit Institution (SAI) to train staff, provide lectures, and further the achievement of GFPAA professional designation by public sector employees. This past year, through GFPAA programs, 20 professionals from the SAI achieved GFPAA designation. In addition to GFPAA's work with the SAI, the organization is also active in supporting the capacity-building efforts of the Ministry of Finance and Revenue Services to assist in building their staffs professional knowledge and capacity.
APPENDIX: CONSULTANT BIOGRAPHIES

Gary Fechtmeyer, Europe/Central Asia and Africa
Mr. Fechtmeyer is a Certified Public Accountant from the United States with diversified experience in international consulting in the financial sector, project management, and the financial management of banks and financial intermediaries. He has served as resident Chief of Party for two major United States Agency for International Development (USAID) sponsored assistance projects and Team Leader on three additional short-term projects. Mr. Fechtmeyer has recent advisory experience in Vietnam, El Salvador, Ukraine, Egypt, Cyprus, Brazil, Africa, Philippines, China, Indonesia, and many other republics of the former Soviet Union.

Jose Justiniano, Latin America and Caribbean
Mr. Justiniano is a financial sector professional with broad experience in the banking, financial services, and accountancy areas. He has served as Governor of the Central Bank of Bolivia as well as a representative of the Central Bank in Argentina. Mr. Justiniano has held numerous positions over the past two decades providing advice and guidance to the International Monetary Fund (IMF), World Bank, and Inter-American Development Bank (IDB). Most relevant, Mr. Justiniano has been responsible for the preparation of projects under the Multi-Lateral Investment Fund in the areas of banking, financial services inclusion, remittances, and international standards adoption and implementation for International Financial Reporting Standards (IFRS) and International Standards on Auditing (ISA). Additionally, he has worked to provide technical oversight for IFRS and ISA-related projects financed by the FIRST Initiative for Honduras and El Salvador, served as the editor for the Spanish translation of International Education Standards (IESs) issued by the International Accounting Education Standards Board (IAESB), and assisted in the preparation of an accounting work program through the Global Development Learning Network (GDLN).

Ronald Points, Asia-Pacific
Mr. Points is an internationally recognized specialist in government accounting and financial management. He has more than 40 years of experience in identifying and documenting financial accounting and reporting policies and requirements, providing guidance on appropriate internal control designs, applying generally accepted accounting standards for financial accounting systems, and conducting financial management seminars. Mr. Points was a member of the International Public Sector Accounting Standards Board which is responsible for establishing International Public Sector Accounting Standards (IPSAS) for governments, for nine years. With the World Bank, Mr. Points was the Manager of Financial Management for the East Asia and Pacific Region. As manager, he provided professional leadership to the region on matters related to project financial management, as well as accounting and auditing standards and compliance, governance and anti-corruption initiatives, and capacity building in World Bank member countries.

Russell Guthrie, Oversight of Report Creation
Russell Guthrie joined the IFAC Management Team in March 2001 and currently serves as the Executive Director, Policy and Professional Relations. Among his current responsibilities, Mr. Guthrie oversees the Professional Accountancy Organization (PAO) Development Committee and guides the interim MOSAIC Secretariat in its activities and its engagement with the donor community. Prior to joining IFAC, Mr. Guthrie worked for 12 years in the assurance practice of KPMG—initially in Dallas, Texas, followed by two years in Rotterdam, the Netherlands. He also has extensive experience in the development and maintenance of firm quality control programs, having served for three years in Amsterdam, the Netherlands, as KPMG’s Director of Global Quality Assurance. Mr. Guthrie graduated with honors from the University of Texas at Arlington in 1988, receiving a bachelor’s degree in business administration. He is a licensed CPA in Texas and New York and is a member of the American Institute of Certified Public Accountants.

Gabriella Kusz, Consultant Coordination and Report Consolidation
Ms. Kusz currently works as a Senior Technical Manager for the Member Body Development Team at the International Federation of Accountants (IFAC). In this capacity, she is responsible for supporting the activities of the MOSAIC Initiative, as well as the IFAC Professional Accountancy Organization (PAOs) Development Committee. Ms. Kusz works toward the goals of developing and strengthening PAOs in order for them to more fully contribute to effective financial management, high-quality financial reporting, financial stability, overall economic growth, and social progress. Prior to joining IFAC, she was responsible for managing international financial reform projects at the CARANA Corporation, a USAID contractor firm specializing in economic development. Previously, Ms. Kusz also worked as a consultant for the World Bank, providing assistance to the Accounting and Auditing Report on the Observance of Standards and Codes (AA–ROSC) Program for the Europe and Central Asia region. Ms. Kusz is a Certified Public Accountant from the United States, licensed in the state of Virginia.
For more information on MOSAIC, please visit www.ifac.org/MOSAIC or email MOSAIC@ifac.org.