

PAO GLOBAL DEVELOPMENT REPORT



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

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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'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

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.



through education and training, quality review, investigation, and discipline of professionals; and

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

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:

- Attracts foreign direct investment (FDI);
- Promotes growth and development of the small- and medium-sized entity sector;
- Increases transparency and accountability in the use of public funds;
- Improves the design and delivery of vital public services; and
- Enhances the effectiveness and efficiency of official development assistance (ODA).

Although PAOs around the world hold the potential to significantly contribute to 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 advanced PAO capacity building; however, much more remains to be done. By signing MOSAIC, IFAC and the donor community seek to enhance support for PAO capacity-building efforts. Through this *PAO Global Development Report* (GDR), MOSAIC has taken the first step in understanding the state of development of PAOs around the world, and the challenges and success factors surrounding their development.

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

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.

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.

ASIA – PACIFIC REGION

Understanding The Regional Context

With a population of 3.63 billion and a GDP of US\$ 11.56 trillion,¹ 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

¹ The World Bank (<http://data.worldbank.org/region/EAP> and <http://data.worldbank.org/region/SAS>)

² The World Bank (http://siteresources.worldbank.org/EXTPREMNET/Resources/C23TDAIT_387-406.pdf)

³ The World Bank (www.worldbank.org/en/news/2012/05/23/east-asia-and-pacific-economic-update-may-2012)



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.⁴

- **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.⁵

- **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).⁶ Beginning with five member PAOs, today AFA has member PAOs in all 10 ASEAN member countries.⁷

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 review⁸ 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.⁹

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.

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/).

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, education, and training.

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.¹⁰

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

¹⁰ Instead of directly adopting international standards, many countries, such as Bangladesh, seek to "converge" or to gradually move closer toward international standards through modification of local standards.

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 investigation and discipline of those who fail to exercise and maintain professional standards and related obligations of an IFAC member body.

In many countries, especially in smaller countries, the accounting profession is a very small community, which challenges both the capacity available to conduct quality assurance reviews and the independence of review activities.

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 of 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.

Challenges and opportunities for PAOs in the Asia-Pacific region remain. 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;¹² SAFA's workshop on sustainability reporting across the region;¹³ and AFA's regional public sector conference.¹⁴

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.

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)

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).

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.¹⁵ 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

¹⁵ The Mongolian Professional Accounting Council was established under the Accounting Law 1993 and is responsible for creating a competent accountancy and auditing profession. Today, the Audit Law of Mongolia stipulates that MPAC shall grant an accountant certificate to those who pass the CPA exam and meet an experience requirement, as provided in the resolution of the Ministry of Finance and Economy (<http://test.monica.mn/eng/cpaprog.html>).

The Mongolian Institute of Certified Public Accountants strives to build accounting and auditing systems in Mongolia that are in compliance with international standards.

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.

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

