

# PAO GLOBAL DEVELOPMENT REPORT



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

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

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

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ISBN: 978-1-60815-145-5

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## 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.<sup>15</sup> 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

<sup>15</sup> 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](http://www.ifac.org/MOSAIC) or email [MOSAIC@ifac.org](mailto:MOSAIC@ifac.org).

