

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.

Copyright © 2013 African Development Bank, Copyright © 2013 Asian Development Bank, Copyright © 2013 Inter-American Development Bank, Copyright © 2013 World Bank Group, and Copyright © 2013 International Federation of Accountants

ISBN: 978-1-60815-145-5

The views expressed in this publication are those of the authors and do not necessarily reflect the views and policies of the Asian Development Bank (ADB) or its Board of Governors or the governments they represent.

ADB does not guarantee the accuracy of the data included in this publication and accepts no responsibility for any consequence of their use.

By making any designation of or reference to a particular territory or geographic area, or by using the term “country” in this document, ADB does not intend to make any judgments as to the legal or other status of any territory or area.

ADB recognizes China by the name People’s Republic of China, Timor Leste by the name Timor-Leste, and Vietnam by the name Viet Nam.

Table of Contents

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

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.

EUROPE AND CENTRAL ASIA

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.

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

² The World Economic Forum (www.weforum.org/events/world-economic-forum-europe-and-central-asia-2011)



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.³

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 Méditerranéens* and the Eurasian Council of Certified Accountants and Auditors.⁴

- ***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.⁵

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)

- ***The Fédération des Experts Comptables Méditerranéens***

Fédération des Experts Comptables Méditerranéens (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.⁶

- ***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.⁷ ECCAA currently focuses on developing the

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.⁸

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.⁹ 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;¹⁰ 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 review¹¹ 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.¹²

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 and develop 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

certification: CAP, earned by passing exams for Financial Accounting I, Management Accounting II, and tax and law; demonstrating computer literacy; and having at least one year of experience and a good reputation as a member of a professional association; and CIPA, earned by passing exams for Financial Accounting II, Management Accounting II, finance, audit, tax and law, and management information systems. Exams are delivered simultaneously in numerous locations throughout Kazakhstan, Kyrgyz Republic, Moldova, Russian Federation, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan. In Central Asia alone, during three years of the USAID Enterprise Development Project, 9,321 people received certification, 32,908 received training, and 40,331 were tested. In the former Soviet Union, more than 62,000 people took CAP exams and 7,500 took CIPA exams over the last six years.

⁸ More information is available on the ECCAA website (www.eccaa.org/eng)

⁹ World Bank CFRR partners include: Austrian Development Cooperation, European Commission Directorate General (DG) Internal Market and Services, Federal Ministry of Finance of Austria, Federal Ministry of Economy of Austria, State Secretariat for Economic Affairs (Switzerland), Ministry of Finance Luxembourg, Ministry of Finance of Japan, Ministry of Foreign Affairs of the Netherlands, and the Financial Sector Reform and Strengthening Initiative (FIRST). Additionally, the CFRR works in strong cooperation with IFAC.

¹⁰ FRTAP is one of the CFRR's two current regional programs benefitting four EU member states and their PAOs. It provides assistance in the implementation of sustainable regulatory and institutional frameworks and in furthering the correct implementation of the *Acquis Communautaire* in financial reporting. Funds for this program are provided from the Swiss State Secretariat for Economic Affairs under the Swiss Enlargement Contribution.

¹¹ Desk study review included information for PAOs in the following countries: Albania, Armenia, Azerbaijan, Bosnia and Herzegovina, Croatia, Georgia, Kazakhstan, Kosovo, Kyrgyz Republic, Macedonia (the Former Yugoslav Republic of),

Moldova, Republic of Montenegro, Russian Federation, Serbia, Turkey, Turkmenistan, Ukraine, and Uzbekistan.

¹² Additionally, a very limited number of personal interviews were conducted where additional clarification was needed.

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.

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

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.

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.

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 Kosovar 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.

- **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.

- **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 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.

- ***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.

- ***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.

- ***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.

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 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.¹³ 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

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.

SUPPORT FOR ADOPTION AND IMPLEMENTATION OF INTERNATIONAL STANDARDS ON AUDITING

The new accounting and auditing law requires all audits to be in accordance with ISAs. Despite lacking legal responsibility, GFPAA translated, updated, and issued IAASB pronouncements. Regardless of GFPAA's use of ISAs, additional training and education, especially for SMPs, is still needed. Assistance from donors in the design and development of training materials and provision of training courses, educational programs, and technical guidance specific to the needs of SMPs will greatly advance the efforts of GFPAA and the implementation of ISAs.

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.

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, the provision of 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.

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.

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

