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.
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.

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

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

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...
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.
LATIN AMERICA AND THE CARIBBEAN

Understanding The Regional Context

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

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

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2 The Inter-American Bank (www.iadb.org) and the World Bank (www.worldbank.org): Antigua and Barbuda, Argentina, Bahamas, Barbados, Belize, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominica, Dominican Republic, Ecuador, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, Trinidad and Tobago, Uruguay, and Venezuela.
improving the availability and transparency of public information and promoting accountability.

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

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

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

The Asociación Interamericana de Contabilidad/Interamerican Accounting Association (AIC) is comprised of PAOs from 21 countries throughout the Americas. AIC goals are to promote:

a) a strong and coherent profession throughout the American continent enabling it to provide services of the highest quality to society and users; b) the comprehensive professional development of accountants; c) the encouragement of improvements in academic training; d) a focus on continuous improvement through training and adherence to the highest standards of professional behavior; and e) the dissemination and furtherance of the ethical principles of the accountancy profession.

• **Institute of Chartered Accountants of the Caribbean**

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

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

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

4 CReCER 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/regions-organizations and www.ifac.org/about-ifac/membership/member/groupings).

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

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

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

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

LEGAL AND REGULATORY FOUNDATION—THE PAO-ENABLING ENVIRONMENT

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

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

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

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

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

PAO ORGANIZATIONAL CAPACITY

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

PAOs address this challenge by leveraging volunteer efforts; however, additional support to build internal technical staff capacity within regional PAOs could greatly enhance the strategic planning and development of these organizations. Lack of technical capacity within PAOs is frequently connected to their
lack of financial capacity. As previously noted, PAO membership is not mandatory to practice accounting and auditing in most nations and, consequently, there is no requirement for professional assessment and Continuing Professional Development (CPD).

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

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

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

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

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

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

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

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

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

In many countries, there is little evidence that tenets of the Code are incorporated into university accountancy education. Additionally, as professional assessment and mandatory CPD

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11 For the purposes of this paper, certification systems include: review of achievement of entry requirements into a program of accountancy education, completion of a program of accountancy education, passage of a professional assessment, fulfillment of a period of practical experience, and ongoing attainment of CPD.

**Considerable gaps currently exist between the requirements of the International Educations Standards, issued by the International Accounting Education Standards Board, and the requirements for membership in most Latin American PAOs.**
are frequently not required, there is no effective manner for determining the level of understanding and knowledge of professionals on ethical requirements. As systems of investigation and discipline of professionals are still relatively nascent, the degree to which ethical violations are linked to investigation and disciplinary outcomes is relatively weak.

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

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

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

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

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

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

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

**SYSTEM OF INVESTIGATION AND DISCIPLINE**

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

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12 Of those countries/PAOs reviewed, Argentina, Bolivia, Dominican Republic, Ecuador, Haiti, and Colombia have not yet adopted these standards.

13 I&D systems are present in the PAOs in Argentina, Bahamas, Barbados, Costa Rica, Dominican Republic, Guatemala, Guyana, Haiti, Honduras, Jamaica, Nicaragua, Trinidad and Tobago, and Uruguay.

14 SMO 6 outlines the requirements for systems of investigation and discipline that includes guidance on sanctions, provision of information and guidance to members, liaison with outside bodies, initiation of proceedings, investigative powers and processes, a disciplinary process, rights of representation and appeal, and administrative processes.
QUALITY ASSURANCE

Only 35% percent of the PAOs reviewed (i.e., Barbados, Brazil, Costa Rica, Guyana, Jamaica, Mexico, Trinidad and Tobago, and Uruguay) adopted the International Standards on Quality Control (ISQC) 1, Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements—a foundational aspect of the development of quality assurance (QA) systems.

Most Latin American PAOs do not maintain a system of quality assurance. This relates to the legal responsibilities granted to PAOs in the region which generally do not permit the establishment and operation of a system of QA for PAO membership. As QA systems tend to be very resource intensive, they are typically seen in more-established PAOs. Within Latin America, only Brazil and Mexico maintain fully functioning systems of QA, while Costa Rica and Uruguay are adopting QA on a voluntary basis with implementation forthcoming.

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

SUPPORT FOR ADOPTION AND IMPLEMENTATION OF INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS

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

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

SUPPORT TO PUBLIC FINANCIAL MANAGEMENT

Although PAOs play a role supporting governments, regulators, and other stakeholders, both at the country and regional level with guidance and advice on accountancy related topics, support to strengthen this aspect of PAO activities could be very useful. In countries where IPSASs have been adopted, there has been more of an impetus for relations between PAO and government entities. For example, in Barbados where IPSASs have been adopted, the PAO maintains a Public Sector Committee to monitor and provide advice on public sector policies and programs related to financial management, accountability, productivity, and governance, as well as support IPSASs implementation.

Additionally, PAOs that have a significant percentage of public sector accountancy members logically play a greater role in supporting public financial management issues. For example, the Ecuadorian PAO is very active in its support of the Servicio de Recaudaciones Internas (Internal Revenue Service) through training and consulting services to the staff on tax and accounting issues. It also has plans to increase its partnership with the Superintendence of Companies (the Superintendence of Banks and Insurance) as well as the Contraloria General de la Republica (Supreme Audit Institution) on training and education of international standards.
**LOOKING AHEAD: PRIORITY AREAS FOR PAO DEVELOPMENT IN THE LAC REGION**

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

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

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

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

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

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

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

  Those PAOs that are currently members of IFAC are required to create an SMO Action Plan; however, additional technical support for PAOs in their development of measurable and achievable organizational strategic plans may greatly enhance the ability of these organizations to plan and achieve PAO development in a coordinated and progressive manner. Additionally, technical support is needed to provide PAOs with the capacity, knowledge, skills, and best practices to achieve the objectives in their strategic action plans would greatly advance the development of these organizations. Well-designed, appropriate, and achievable strategic action plans could be a
A key challenge for PAO development in the region is the need to enhance accountancy education and training, as well as implementing a mandatory certification system in line with IESs.

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

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

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

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

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

The adoption of international standards presents a significant positive step toward strengthening LAC region financial reporting and management. However, its benefits, including cross-border comparability of financial information, would be enhanced through development of an ongoing process to translate, review, and adopt new and updated pronouncements in a timely manner.

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

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

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

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

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

Professional certification systems and ongoing professional education function to ensure that professionals maintain the knowledge, skills, and abilities necessary to provide high-quality services and keep abreast of ongoing changes to standards and practices. Additional support from the donor community strengthening these systems and PAO capacity in these areas may greatly enhance the ability of professionals to appropriately apply international standards in practice and enhance implementation.
• **PAOs in the LAC region need additional support to better contribute to public financial management issues.**

The key to transparency and accountability depends on the availability of reliable and accurate financial information. Although PAOs can contribute to public sector entities with training and advice on internal controls and financial reporting, their lack of resources is a constraint to more active participation. Support for PAOs in understanding their role in supporting public financial management (PFM), engaging in dialogue with government stakeholders (e.g., Ministries of Finance and Auditor Generals), and orienting their activities, including education and training, to include PFM may greatly enhance their ability to further PFM in their respective countries.

• **The CReCER initiative has had a strong impact in furthering regional PAO and accountancy development in line with international standards and best practices.**

Donor support for regional activities like CReCER have raised awareness and engagement among policymakers regarding the importance of PAO and accountancy development to national and regional economic growth. In turn, CReCER activities have been a catalyst for progress and change within the region.

• **Regional organizations can have a strong role in furthering PAO and accountancy development.**

Additional technical support and resources are needed to facilitate these organizations’ efforts to strengthen structure and functions, provide needed services, and maintain sufficient capacity to meet the needs of the region.

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**A CLOSER LOOK AT PAO DEVELOPMENT: INSTITUTO GUATEMALTECO DE CONTADORES PÚBLICOS Y AUDITORES**

The Guatemalan Institute of Public Accountants and Auditors (Instituto Guatemalteco de Contadores Públicos y Auditors, or IGCPA) is Guatemala’s national-level organization representing the accountancy profession. Created in November 1968, IGCPA is legally recognized by the Guatemalan government as one of the institutions that represent the accounting and auditing profession in the country. IGCPA maintains membership in IFAC.

In addition to IGCPA, Guatemala also has the Colegio de Contadores Publicos y Auditores de Guatemala (CCPAG), which was created in April 2005 and is registered and recognized by law. CCPAG has shown an interest in IFAC membership and is working to grow stronger in accordance with the IFAC SMOs.

Cooperation between these two organizations is strong and can be seen in their submission of a joint SMO Action Plan that recognizes the roles and responsibilities of both organizations in strengthening the Guatemalan accountancy profession.

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

The legal and regulatory framework in Guatemala has allowed establishment of the IGCPA as a national professional accountancy organization (PAO). The government formally recognized the ByLaws of the Institute in November 1968. CCPAG was founded more recently and gained government recognition as a PAO in April 2005.

In accordance with the Professional Association Act (issued in July 1991), the practice of statutory audit is restricted to persons who are licensed as professional auditors. However, the law makes no reference to the operation of systems of certification, quality assurance, and investigation and discipline of accountancy professionals. CCPAG holds legal authority to set standards for both public and private sector accounting and auditing for Guatemala. This authority allows the PAO to promulgate the IAASB pronouncements established by publishing or communicating the standards to the public. The legal and regulatory framework permits collaboration between PAOs and accountancy standard setters.

**PAO ORGANIZATIONAL CAPACITY**

IGCPA currently maintains a functioning governance and operating structure. The organization is governed by a Board of Directors comprised of seven directors (president, vice president, secretary, treasurer, and three other directors). Additionally, there is one alternate director and two internal auditors. The members of the Board of Directors are not remunerated. Moreover, the work performed by members of the Tribunal Honor and the different
committees—Evaluation and Advisory—is also conducted on a volunteer basis. IGCPA maintains an operational system of internal control and financial reporting and its annual financial statements are audited by an independent external auditor.

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

In order to be admitted as a member of IGCPA, a candidate must complete a program of professional accountancy education. Membership in the organization is tiered and offers the option of completing the certification process after achievement of recognition as a bookkeeper or continuing on to become a Certified Public Accountant (CPA). Students are educated in basic accountancy during post-secondary education and begin work as an accountant (bookkeeper or “Perito Contador”).

In order to become a CPA, students must then attain a university degree in the area of accountancy and fulfill a practical experience requirement of a minimum of two years prior to college graduation (depending on the university in question). Once a candidate has completed the required practical experience and received a degree in accounting, the professional licensing law then requires the new professional register with the CCPAG.

Enrollment and registration as a CPA does not require passage of a professional assessment (i.e., exam). Presently, without completion of a professional assessment, the only manner IGCPA has for determining professional qualifications is by review of a university thesis. However, there are plans to introduce a final assessment of professional capabilities and competence after university degree achievement and completion of a thesis.

Although there are some informal requirements for practical experience as required by universities, there are plans to introduce a more formal practical experience through professional certification.

One of the key areas for focus noted in the joint SMO Action Plan is their dialogue and efforts to raise awareness of the importance of professional assessment.

IGCPA maintains responsibility for CPD requirements applicable to its members. As such, the organization facilitates achievement of education and training through the provision of conferences, seminars and an annual congress. These requirements are currently voluntary; however, IGCPA monitors the number of hours achieved and outlines a suggested minimum number of CPD hours for members. IGCPA recognizes the need to strengthen entry, assessment, and practical experience as well as CPD requirements in line with IESs.

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

IGCPA maintains its own Code of Ethics, which is based upon the 2006 version of the IESBA Code. The IGCPA code deviates from the most recent version of the IESBA Code of Ethics. IGCPA plans to compare its code with that of the IESBA and analyze the differences. If possible, attempts will be made to adopt the most recent version of the IESBA Code of Ethics for all professionals. The IGCPA code currently covers professional accountants in the practice, business, and the public sector.

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

In July 2002, IGCPA adopted the conceptual framework of International Financial Reporting Standards (IFRS), and interpretations issued by the IFRS Foundation, as the generally accepted accounting principles in Guatemala. In 2004, an updated IGCPA resolution adopted the 2004 version of IFRSs in an effort to enhance international convergence. In 2007, IGCPA and the CCPAG adopted the latest version available of IFRSs translated into Spanish language. In June 2010, CCPAG and the IGCPA adopted IFRS for SMEs for entities that do not apply full IFRS.

IGCPA has provided conferences and workshops with IFRS in order to disseminate and communicate the use and application of these rules. In the coming months, IGCPA indicates that it will focus on further implementation of IFRS through the development of training, outreach, and continuing education as well as to continue monitoring the standards for modifications and amendments.

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

The ISAs issued by the IAASB have only recently been adopted by CCPAG and the IGCPA. In spite of this, there is no technical body with the authority to verify compliance with these standards.

CPPAG published a resolution on the adoption of ISAs, which took effect for all audits conducted from 2008 onward. The resolution fully adopted ISAs and stipulated that in the future all new and
revised standards would be adopted in Guatemala immediately on the date they are promulgated by the IAASB.

The Superintendence of Banks (the entity supervising the financial system) has additional requirements for the practice of audits of entities within the Guatemalan financial system. In addition, the Superintendence maintains a register of audit firms that are permitted to offer their services to financial institutions. This record is reviewed and updated bi-annually to ensure compliance. While this registration relates to audit firms and their partners, in accordance with the applicable regulations, it does not provide a system of quality assurance.

Through the joint SMO Action Plan, IGCPA has noted its commitment to create a process to promote awareness among professionals in public practice regarding changes to IAASB standards through emails, newsletters, and IGCPA website. It also maintains ongoing efforts to provide training seminars on IAASB standards for professional accountants. For implementation to be effective, accountancy professionals will need to have timely access to new accounting and auditing standards in addition to quality education to ensure the requirements are well understood and applied correctly.

**SYSTEM OF INVESTIGATION AND DISCIPLINE**

IGCPA maintains a program for investigating and disciplining members for misconduct, including breaches of professional standards and rules. This responsibility is shared with the Accountant General, Financial Sector Authority and Banking Authority. The Law on Compulsory Professional Associations (Decree No. 72-2001) establishes the principle of investigation and discipline and assigns this function to the Court of Honor for each professional organization. This stipulates that the Court of Honor (in each respective professional association) should punish persons who have: a) demonstrated a lack of ethics, b) affected the honor and prestige of the profession, and c) shown notorious inefficiency, incompetence, negligence, incompetence, malpractice, or morally wrong behavior in the exercise of the profession.

Under the law, the exercise of investigation and discipline by the organization’s Honor Court must be conducted in accordance with the organization’s due process and conclude with penalties and/or rehabilitation.

In Guatemala, professional misconduct is categorized as a criminal activity. Imposed sanctions can include the loss or restriction of practicing rights and financial penalties. At the moment, draft regulations envision the sanction for a breach of standards to include a monetary fine between USD$268 and USD$10,526. The PAO is not obligated to report breaches of professional or ethical standards to outside bodies.

The approach IGCPA uses to initiate investigation and discipline proceedings are both information and complaint based. Presently, one deficiency is the lack of required authority to permit IGCPA personnel to carry out an effective investigation. Additional authority to create a competent committee, to control quality and effectiveness of the work of members to ensure that the audit firms and auditors are subject to sanctions and to certify compliance of practitioners, is needed in order for the investigation and disciplinary system to function properly.

IGCPA recognizes the lack of adequate financial and other resources to enable timely investigative and disciplinary action.

**QUALITY ASSURANCE**

Guatemala currently lacks a comprehensive system of quality assurance for audit professionals and has not yet established an independent audit regulator to oversee the profession. Additional support is needed to supplement the efforts of IGCPA and CCPAG in developing a system for ensuring the quality of audits that takes into consideration the Guatemalan country context. The plan must include start and completion dates; appoint agencies and individuals responsible for the system; and include a discussion on the resources required to implement the plan.

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

IPSAS have not been implemented yet by the government of Guatemala. Currently, IGCPA is collaborating closely with the Ministry of Finance (MoF) on this project and the current plan available from these collaborative efforts describes the transitional steps for the implementation of IPSAS in government accounting. The MoF estimates it will take a period of three years to complete this transition, allowing IPSAS implementation to be completed in 2013 and take effect in 2014. The IGCPA is committed to using its best efforts to encourage public sector institutions to adopt IPSAS and to lend support and assistance to the process of implementation (e.g., provision of training for relevant personnel). Additional support to IGCPA in furthering implementation of
IPSAS in this area may greatly enhance the resulting level of application in practice.

**SUPPORT TO PUBLIC FINANCIAL MANAGEMENT**

In conducting this review, the collaboration between IGCPA and CCPAG in the area of PFM was not clear. There were substantial efforts in the area of IPSAS adoption and implementation but additional assistance to the IGCPA and CCPAG in supporting public financial management may greatly aid in Guatemala’s development of this important sector.
For more information on MOSAIC, please visit www.ifac.org/MOSAIC or email MOSAIC@ifac.org.