

PAO GLOBAL DEVELOPMENT REPORT



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

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

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EXECUTIVE SUMMARY

In recognition of the important role that professional accountancy organizations (PAOs) can play in furthering the principles of aid effectiveness embodied in the Paris Declaration, Accra Agenda for Action, and the Busan Partnership for Effective Development Cooperation, the International Federation of Accountants (IFAC) and twelve donor organizations signed the *Memorandum of Understanding to Strengthen Accountancy and Improve Collaboration* (MOSAIC).¹

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

- Operate in the public interest;
- Develop capable and competent accountancy professionals;
- Promote strong professional and ethical standards;
- Enhance the quality of financial reporting and auditing

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



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

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

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

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

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

The Ten Key Areas of Focus for MOSAIC PAO Development Activities

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

1. Undertake PAO Development Comprehensively

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

2. Strengthen Legal and Regulatory Foundations

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

3. Monitor and Provide Support to Fragile States

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

4. Support Internal Strengthening of PAOs

Currently, many PAOs lack a coherent operating model that directs the organizational, financial, technical, and overall development of their organization, defines key activities, and provides indicators to facilitate measurement of progress. Additional support for PAOs in developing a sound system

Professional accountancy organizations (PAOs) are membership bodies comprised of individual accountancy professionals who perform a variety of roles in the accountancy field and adhere to high-quality standards of practice.

of governance, appropriately structuring operations, and utilizing strategic planning techniques will aid in positioning PAOs to take a greater role in furthering financial sector and economic growth.

5. Develop PAO Education and Certification Capacity

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

6. Broaden PAO Membership Bases

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

7. Further Implementation of International Standards

Although many countries and PAOs have adopted international accountancy standards (e.g., International Standards of Auditing, International Financial Reporting Standards, International Public Sector Accounting Standards, and the *Code of Ethics for Professional Accountants*), the adoption of older versions of the standards, inappropriate modification of standards by many national governments, and serious deficiencies in the application of standards by practitioners reduces their international comparability, consistency, and cross-border understanding. Development

assistance supporting the creation of formal systems to undertake the process of translating and incorporating updates to international standards on a timely basis is needed. Additionally, support directed toward the design, development, and operation of PAO systems of certification, quality assurance, oversight, and investigation and discipline will further the implementation of international standards and enhance realization of their benefits.

8. Support PAO Orientation to the Public Sector

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

9. Strengthen Regional Organizations and the Services They Provide

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

10. Facilitate PAO Mentoring Relationships

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

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

