Business Case and Intervention Summary

Title: International Federation of Accountants (IFAC) – Strengthening the accountancy profession to build business confidence and improve PFM.

What support will the UK provide?

The UK will provide £4.935 million over seven years to the International Federation of Accountants (IFAC) to strengthen the capacity of Professional Accounting Organisations (PAOs). PAOs are national and regional level membership bodies comprised of individual professional accountants, auditors, and/or accounting technicians in public practice, government service or working in industry and commerce.

The funding will be used to strengthen PAOs in at least 10 DFID focal countries to play a greater role in furthering economic development. Technical support, including peer-to-peer support by more established PAOs from OECD countries (including the UK), will be provided to build the managerial, financial and technical capacity of partnered PAOs so that they can drive improvements in professional and ethical standards within the accounting industry in developing countries.

UK funding via DFID will be matched by £0.463 million from IFAC. Other donors (see below) have also expressed an interest in supporting this initiative, but have yet to confirm level of support.

Why is UK support required?

Supporting capacity building efforts of PAOs can have a marked impact on accounting and auditing standards and the quality of financial information produced. Access to higher quality financial information can, in turn, improve decisions taken by government, investors, businesses and the donor community – accelerating economic growth and enhancing transparency and accountability in the use of resources in both government and corporate sectors.

The International Federation of Accountants (IFAC) is the global body for the accountancy profession. It is dedicated to serving the public interest by strengthening the global profession and contributing to the development of stronger national and regional PAOs. It is a not-for-profit organisation currently comprised of 179 member and associate Professional Accountancy Organisations (PAOs) in 130 countries and jurisdictions.

PAOs perform a number of core functions (including professional certification, education and training, quality review, investigation and discipline) and enforcement of standards) that are integral to the production of competent and capable accountants and auditors. Presently, many countries lack PAOs able to fulfil these functions.

IFAC have developed a PAO capacity assessment methodology and set of tools to support

PAO development. The Federation is able to draw on its members to provide peer-to-peer training. This support is coordinated through IFAC's PAO Development Committee (PAODC) and IFAC's Compliance Advisory Panel to which members report. Donors, including DFID, are also part of the PAODC through membership of the Memorandum of Understanding to Strengthen Accountancy and Improve Collaboration (MOSAIC) and are part of the Steering Committee which meets annually. .

At the last Steering Committee meeting of MOSAIC in October 2013, a proposal was put to donors to consider funding the work of the PAODC - in order to target support to those PAOs in low income countries that have the greatest capacity building needs. It is possible that other donors will be willing and able to contribute to this programme within the seven year planned term and also continue beyond it[1].

This business case also responds to the Secretary of State's desire to see DFID leverage the expertise of UK accounting institutes and strengthen the accountancy profession in developing countries to improve economic development and public financial management. All 5 UK chartered institutes of accountancy (ICAEW, ICAS, CIMA, CIPFA and ACCA), the Association of Accounting Technicians (AAT), and the Institute of Financial Accountants (IFA) are IFAC member PAOs.

What are the expected results?

Over 7 years, the programme will lift at least 10 countries to a level of professional competency whereby their own Professional Accountancy Organisations will be recognised and functioning effectively[2]. The programme will also strengthen regional bodies to network and provide a resource to countries in their respective regions.

Establishment of PAOs will provide the countries concerned with a voice for the accountancy profession and a source of technical expertise and high standards of integrity.

The programme will have 4 **outputs**. Three focus on different dimensions of PAO capacity development – 1. sustainability, 2. relevance and 3. adoption and enforcement of international standards. The fourth output is focussed on 4. action research to build the evidence base and improve the impact of future interventions in the sector.

At the **outcome** level, the programme aims to deliver significant improvements in the quality of financial management, financial reporting and auditing practice in both the public and private sectors in selected countries.

At the **impact** level, the programme will contribute to increased business confidence and levels of investment and increased transparency and accountability in the use of public funds

[1] Other donors, including the African Development Bank, USAID and Irish Aid have expressed interest, including at the MOSAIC steering committee meeting in 2013, although no commitments have been made.
[2] Final number of countries to be determined following further diagnosis and within degrees of attainment as set out in the logframe i.e., not all countries will be full IFAC members or Associates by the end of the programme.

in selected countries.

Business Case

Strategic Case

A. Context and need for a DFID intervention

Over the past two decades, substantial research has been undertaken on accounting standards globally. The World Bank Accounting and Auditing Reports on the Observance of Standards and Codes (ROSC) programme produces national reports that:
- assess the strengths and weaknesses of existing institutional frameworks, which underpin financial accounting and auditing practices;
- determine the comparability of national accounting and auditing standards with internationally recognised standards (including International Financial Reporting Standards (IFRSs) and International Standards on Auditing (ISAs), and
- assess the effectiveness of enforcement mechanisms for ensuring compliance with existing national standards, rule and regulations.

These ROSC reports also identify areas for improvement that help policy makers and other country stakeholders develop an action plan for enhancing accounting and auditing standards and practices in the country.

Professional Accounting Organisations (PAOs) are an integral part of the national financial infrastructure in any country and if they are functioning well, they have a significant contribution to make to the financial, economic and social development of their countries and regions. PAOs core functions are to:

- **operate in the public interest to promote global standards**
- **develop capable and competent accountancy professionals** – able to meet the changing demands of business and government - through education, certification and continuing professional development programmes;
- **promote and enforce strong professional and ethical standards** – through adoption and implementation of international standards and good practices – that enhance public trust and build business confidence. Well-functioning systems of investigation and discipline can also be used by PAOs to enforce adherence to these standards;
- **enhance the quality of financial reporting and auditing**, and;
- **act as a resource to government, regulators, civil society and others** 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 building self-reliant economies.

Focusing efforts on strengthening PAOs supports the production of high quality financial reporting, auditing and financial management, which in turn:

- **attracts foreign direct investment –** the development of capital markets requires credible and reliable financial information to build investor confidence.

- **promotes growth and development of the small and medium sized enterprise sector.** SMEs account for over 60% of gross domestic product and 70% of total employment in low income countries. High quality financial information and management enhances their ability to thrive by improving business and investment decision making;
- **increases transparency and accountability in the use of public funds** – both internally and externally ; and,
- **improves the design and delivery of vital public services**;

IFAC have developed tools to assess the capacity building needs of member PAOs. The IFAC capacity building approach takes each country context as its starting point with ten key development activities in mind:

1. Looking at PAO development comprehensively, working within the greater national context of sound financial sector legislation, professional accountancy capacity building and regulation of the financial sector;
2. Strengthening the legal and regulatory foundations;
3. Monitoring and providing support to fragile states;
4. Supporting the internal strengthening of PAOs through the use of strategic plans, governance arrangements, diagnostic tools for overcoming local difficulties;
5. PAO education and certification capacity;
6. PAO membership bases;
7. Implementation of international standards;
8. Orientation to the public sector;
9. Strengthen regional bodies and the services they provide; and,
10. Facilitate PAO mentoring relationships.

In the analysis of any given PAO, or in establishing a PAO in a country for the first time (often the case for fragile and conflict affected states), IFAC uses a diagnostic tool which analyses the extent to which the PAO is able to address the categories above.

IFAC uses a graduated approach of four levels leading to Associate Membership and then further detail to fulfilling the requirements of Full Membership of IFAC. Membership is judged on the basis of compliance with the IFAC Statements of Membership Obligations (SMOs).[3]

IFAC has the power both to approve and to censure members and compliance with the SMOs is an ongoing process. In the event of withdrawal of Membership by IFAC, they will help their Associates and Members to comply with the SMOs through detailed actions plans, which is an important aspect of the sustainability of the PAO development work. It will allow for return of the member body once remedial action is taken on the issue(s) which caused dismissal and as long as IFAC is satisfied that standards are being maintained. This return has to be within two years otherwise the PAO has to go through the application process again.

[3] Copyright @ November 2012 by IFAC, ISBN: 978-1-60815-133-2

B. Impact and Outcome that we expect to achieve

The improvements in standards and professionalism will be provided through direct capacity building through training (on the job and specialist courses) and through mentoring in peer to peer arrangements, which current institutions belonging to IFAC as Full Members (including UK institutions) will provide. There will also be certain training and capacity building initiatives which will be put out to competitive tender by IFAC.

IFAC have already undertaken an assessment of PAO capacity in a number of Low Income Countries and have drawn up a shortlist, including Nigeria, Burma, Bangladesh, DRC , Afghanistan, Occupied Palestinian Territories, Yemen, Tajikistan, Ethiopia and Mozambique. The assessment has been based on both “push” (capacity need) and “pull” (demand and readiness) factors.

The programme will have 4 **outputs**. Three focus on different dimensions of PAO capacity development – 1. sustainability, 2.relevance and 3.adoption and enforcement of international standards. The fourth output is focussed on 4 action research to build the evidence base to better understand and measure the impact that stronger PAOs have on economic development and improved public financial management in developing countries.

The strength of country ownership is assessed from the outset and monitored throughout. This combined with technical assistance, on-going support and advice from within the profession, increased access to regional knowledge and expertise, and oversight of the process by IFAC will lead to the **outcome** – high-quality financial management, reporting, and auditing in both the public and private sectors, contributing to public and private sector development, economic growth, and the aid effectiveness agenda through a significant:

- increase in the quality of financial management practices;
- increase in the quality of financial reporting and auditing; and
- access to / use of high-quality information in decision-making.

As the quality of financial management practices improves and the accuracy and timeliness of financial reporting and auditing increases, access to and use of better financial information will contribute to better decision making in both government and corporate sectors which will lead to the intended **impact** of the programme, which is an:

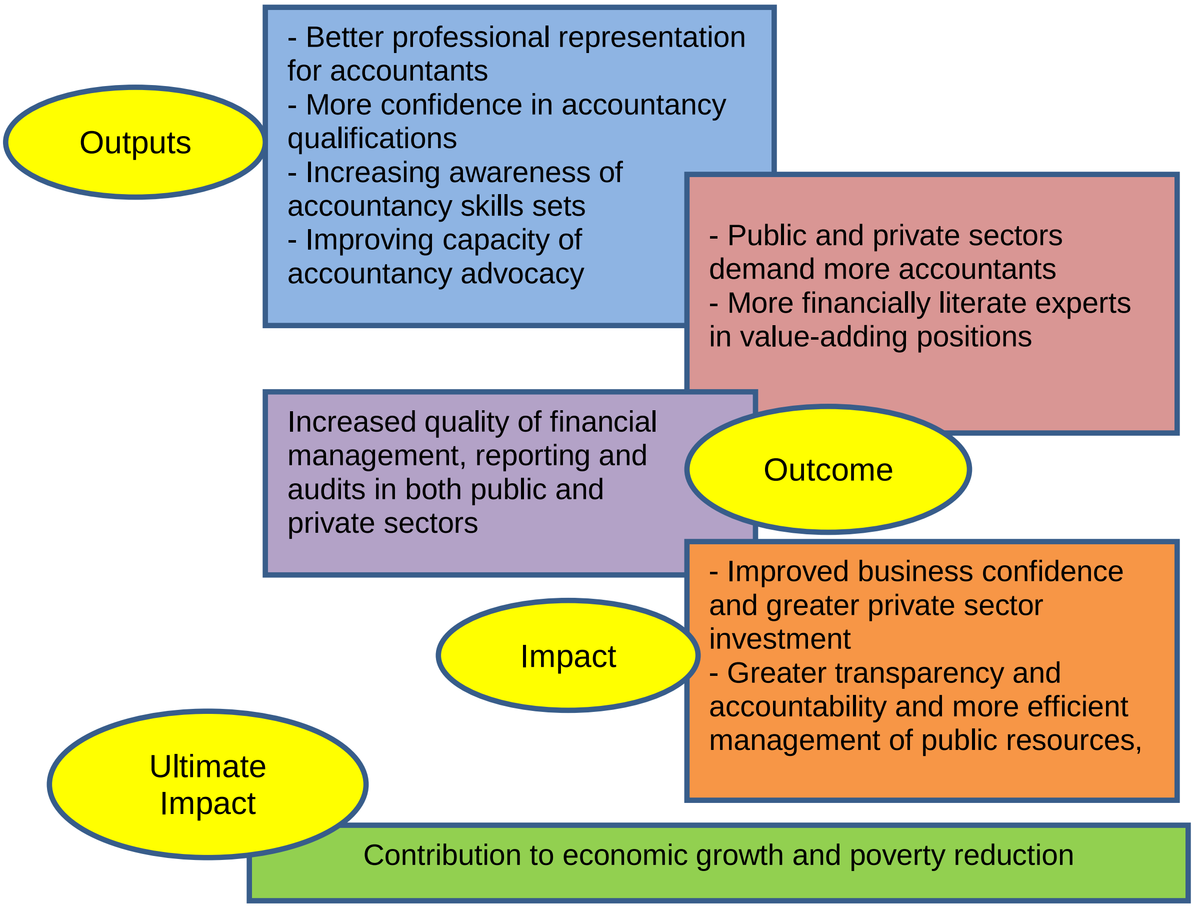
- increase in business confidence, investment and SME growth
- increased accountability and transparency over the use of public funds ;

Appraisal Case

A. What are the feasible options that address the need set out in the Strategic case?

The strategic case set out the important functions performed by PAOs and both the needs and the benefits of developing PAO capacity in DFID focal countries.

The broad theory of change (ToC) for intervening in the development of professional accountancy organisations (PAOs) in DFID focus countries is outlined below.



There are a number of alternative channels to pursue this ambition. The two options judged most feasible are the following:

A. DFID support a proposal received by the International Federation of Accountants (IFAC) to implement a series of five year Professional Accountancy Organisations' (PAOs) capacity building support programmes.
B. DFID country offices complete their own assessment of Professional Accountancy Organisations' (PAOs) needs and contract specific support where required, assisted by a centrally funded and DFID managed draw down technical facility.

There is also the option not to intervene.

C. DFID to allow the accountancy profession in focus countries to develop along current trajectories.

Options A, B and C are the subject of further analysis below.

Option A: Support the IFAC proposal *DFID support the proposal received by IFAC to implement a series of five year PAO capacity building support programmes across 10-14 countries.*

This proposal was received as part of an on-going dialogue between DFID and IFAC on the role the accountancy profession can play in supporting DFID's efforts on economic growth and improved public financial management.

The proposal focuses on the sustainable development of Professional Accountancy Organisations (PAOs) and would be resourced via an Accountable Grant (AG). IFAC propose to employ a PAO-to-PAO model, whereby established and compliant PAOs who are current IFAC members, are contracted to capacity build PAOs in developing countries, or seek to establish them where none currently exist. They would also occasionally use consultants to deliver technical assistance.

The programme would be managed by IFAC over a period of seven years, with each package of country support lasting five years, at a cost of £4.94 million.

Option B: DFID country office-led model *DFID country offices complete their own assessment of Professional Accountancy Organisations' (PAOs) needs and contract specific support where required.*

This model draws on country-level knowledge and central level accountancy expertise to (i) diagnose constraints facing the development of improved accountancy and audit practices through PAOs in focus countries and then (ii) commission expert support to address them.

Under this option, country offices would be supported by the relevant Policy Division team (Governance and Open Societies Department, GOSAC) to conduct an assessment of the current accountancy landscape in their country. This assessment would analyse the extent to which the current state of professional capability in the public and private sector is contributing to or inhibiting economic growth (along the broad ToC as outlined above).

Based on this analysis, the country office (with the support of the central team) would develop a Terms of Reference (ToR) from which to procure the services of experts to support reforms in the areas identified as key constraints to the ability of the accountancy profession to support economic development. These experts may be drawn from established PAOs, leading professional firms, consultancies or other high-quality sources.

The result would be a series of co-funded (between country office and GOSAC) programmes, tailored to the needs of accountancy profession development in each country. These programmes would provide up to four short term (10 day) technical assistance missions per country, per year. This co-funding model would be trialled across five DFID focus countries (to be determined) over three years, with management responsibilities held at country office level and GOSAC providing an overarching lesson-learning and M&E coordination role.

Option C: Do not intervene *DFID choose not to intervene and allow the accountancy profession in focus countries to develop along current trajectories.*

The third feasible option is for DFID not to intervene in the development of the accountancy professions in focus countries. Currently, levels of compliance with IFAC-level standards (used here as a proxy for quality of and confidence in the accounting profession) are mixed, but generally very low across DFID focus countries.

IFAC estimates that it is expected to take at least 30 years and in excess of $100 million (£60 million) of resources to close the gap between current levels of compliance and adherence to international standards across PAOs worldwide (not including 13 countries which currently have no form of PAO).

B. Assessing the strength of the evidence base for each feasible option including delivery routes

In the table below the quality of evidence for each option is rated as either Very Strong, Strong, Medium, Limited (or No Evidence)

Option	*Evidence rating*
A	*Limited*
B	*Limited*
C	N/A

Options A and B are different ways of responding to the same sets of challenges, with both relying on the strength of the links in the ToC from output level, which are tested below.

<u>*Outputs to outcome:*</u> *PAOs that set, monitor and enforce accounting standards and operate under sustainable business models can raise professional and ethical standards and deliver higher quality auditing, financial reporting and financial management practices*.

National level PAOs have a critical role to play in the adoption and promotion of international standards that improve the quality of local accountancy, audit and financial management expertise. The World Bank, through its work on Reports of the Observance of Standards and Codes (ROSCs)[4] – conclude that national level observance of international standards, such as those subscribed to by quality PAOs, "provide a benchmark that can help identify vulnerabilities as well as guide policy reform." The ROSC programme further note that "To best serve these objectives…the scope and application of such standards needs to be assessed in the context of a country's overall development strategy and tailored to individual country circumstances" – underlining the importance of national level institutions.

Kenya provides a good country example of PAO development yielding results. Kenya was the subject of a World Bank ROSC review in 2001. This noted that compliance with standards was partial and that: "Improvements are needed in the legal framework governing accounting and financial reporting, the professional education and training arrangements, the professional body, and the enforcement mechanism." It was further noted that commitment to this effort "…would help develop accounting and auditing practices and bring about improvements in compliance with the international standards".

Following this recommendation, the Institute of Chartered Certified Public Accountants of Kenya (ICPAK) developed a funded programme of capacity building support. The subsequent

[4] More information at: http://www.worldbank.org/ifa/rosc_more.html

ROSC review, nine years on, in 2010 noted: 'Since the last ROSC Accounting and Auditing review in 2001, Kenya has made progress in strengthening its institutional framework for accounting, auditing, and corporate financial reporting. The major challenges are to further consolidate its achievements and continue to update and improve institutional arrangements in order to strengthen the corporate financial reporting regime and in turn improve the investment climate and business environment.' ICPAK continued its programme of capacity-building and is now judged to operate at the highest level (5) in the IFAC capacity building methodology. The success of the Kenyan capacity building programme has enabled a member of staff from there to take the Rwanda PAO through development from establishment to being an IFAC associate in 4 years.

Kosovo provides another example. The PAO in Kosovo (SCAAK) was established in 2001 and received funding for a capacity building programme – in part delivered via a Dutch PAO. Aided by this support, it became a full member of IFAC in 2009. The PAO now plays a significant role in policy dialogue with the Kosovo Government and has extended the range of services provided to members – for instance they have recently developed a new curriculum to train public sector accountants. From a very low base 12 years ago, SCAAK is now operating at level 4/5 in the IFAC capacity building methodology.

Outcome to impact: Higher quality auditing, reporting and financial management that promotes economic development and PFM leads to increased business confidence and more effective use of public funds.

Evidence underpinning this causal link from outcome to impact is currently limited. Those impact studies that have been published are focussed on OECD or emerging market economies. One of the outputs of the planned programme is to address this gap.

There are many factors in play that determine business confidence and improved financial management in DFID focal countries, over and beyond the professionalism of the local accountancy profession. But the more developed the financial markets, the greater the importance attached to timely and accurate financial reporting and the greater the demand for qualified accountants familiar with international accounting and auditing standards – currently in short supply.

Research by the Association of Certified Chartered Accountants (ACCA, 2014[5]) finds that investors place value in credible, timely financial reporting, noting that fast releases of audited financial information are viewed as '…a proxy of good corporate governance and management, companies that can release information quickly will have an advantage in attracting investment. It can also help to strengthen reputation.'

Work with PAOs to build skills in the accounting profession and adoption of international standards is an important complement to ongoing efforts by DFID to support the development of capital markets in the frontier economies that are the focus of our work.

A recent synthesis literature review of the evidence linking financial sector development to economic growth [6] found that there was a statistically significant and economically

[5] Available here: http://www.accaglobal.com/zw/en/research-insights/corporate-reporting/investor-perspectives.html

[6] See A Narrative of the Quantitative Evidence on Causes and Consequences of Financial Sector Development - Selahattin Selsah Pasali - FIRST Impact Note 001

meaningful positive effect of financial sector depth (covering banking sector, capital markets and pensions sector) on economic growth. It further concluded that accounting standards, alongside other Institutions (including creditor rights, the rule of law, quality of contract enforcement.) are important drivers of the depth, stability, efficiency and inclusiveness of the financial sector in both developed and developing economies.

With regard to PFM programmes, the lack of qualified accounting and auditing professionals in government service is one of a number of constraints that limit the pace, reach and sustainability of public financial management reform programmes. Evaluations of PFM reforms have consistently highlighted the need to ensure there is a consistent output of people with core skills in auditing, accounting and financial management. [7] They have also indicated that in many developing countries, the related training bodies have deteriorated over time and commonly fail to produce graduates of a sufficient number and quality.

C. For each feasible option, what is the assessment of local capacity? Is the intervention likely to strengthen capacity in a durable manner?

Both options A and B will involve the capacity building of local PAOs. 15 DFID countries have IFAC member PAOs and another 3 have associate members. 10 focus countries have no IFAC-registered PAO at all. The current capacity building needs of both current and associate members (as assessed by IFAC) demonstrates the need to deliver a step-change in the level of effort needed to strengthen these organisations.

The analysis below considers the ability of each active option to support the capacity building effort in a way that is sustainable.

Option A: Support the IFAC proposal

The IFAC proposal has already identified 16 local PAOs to work with[8], following an assessment of three factors:

- the extent of capacity development needed
- the willingness of the PAOs to strengthen their business models and achieve IFAC membership status
- their potential to benefit from improved practices (including an assessment of institutional landscape in country).

The diagnosis work has therefore already been undertaken and has benefitted from IFAC's strong experience in the capacity building of PAOs over many years. Similarly, IFAC has built considerable experience in the delivery of peer-to-peer capacity building programmes to developing country PAOs and places a strong emphasis on sustainability. The proposal received demonstrates a solid understanding of what a sustainable PAO looks like and the role of technical assistance in achieving that vision.

Option B: DFID country office-led model

[7] See Evaluation of Public Financial Management Reform: Final Synthesis Report (SIDA, 2012)
[8] Burundi, DR Congo, Ethiopia, Mozambique, Nigeria, East African regional programme, OPTs, Yemen, United Arab Emirates, Afghanistan, Bangladesh, Bhutan, Burma, Laos, Tajikistan and an Eastern Caribbean regional programme. In early discussions with IFAC, we have made clear that we would like to reduce this number and focus only on DFID partner countries, which IFAC have agreed to in principle.

This model is proposed to make use of country office knowledge of PAO capacity on the ground and the potential opportunities to support advocacy work. In order for this to be effective, the selected countries would need to be those where DFID already had established Financial sector development or PFM work streams and there was sufficient recognition of the value of PAOs and the appetite (both within DFID and with partners, e.g. government and private sector bodies) to strengthen their role.

Currently, the majority country office relationships in these policy areas are with government partners – for instance the local equivalents of the National Audit Office or Public Accounts committees. Without strong existing relationships, there would need to be an investment on the part of country offices to build these links and understand the needs of PAOs and their place in the institutional landscape of the country in order to respond to local capacity needs.

The model of support offered via option B would be flexible by country, but is likely to take the form of a series of short term (in the region of four assignments, lasting ten days, per year) technical assistance visits by experienced PAOs (likely to be developed nation/IFAC accredited). The durability of the support offered would be dependent on the selection of the provider and the appetite for reform within the PAO itself. The country office and central teams would need to ensure that the expertise provider was a good fit for the need identified and the form of support was appropriate. This could be managed by utilising expert PAOs with experience of capacity building in developing countries, or developing country PAOs that have already graduated to IFAC member status, or have other internationally-recognised credentials.

<u>Option C: Do not intervene</u>
Not applicable.

D. What is the likely impact (positive and negative) on climate change and environment for each feasible option?

Categorise as A, high potential risk / opportunity; B, medium / manageable potential risk / opportunity; C, low / no risk / opportunity; or D, core contribution to a multilateral organisation.

Option	*Climate change and environment risks and impacts, Category (A, B, C, D)*	*Climate change and environment opportunities, Category (A, B, C, D)*
A	*C*	*C*
B	*C*	*C*
C	*C*	*C*

<u>Risks</u>
The risk of negative environmental consequences of all options is considered to be low. The active options are primarily capacity-building facilities and so the largest impact is likely to be in terms of additional travel generated as a result of this form of support. This may be minimised by the use of regional experts where possible and should be considered as part of any contracting decisions.

<u>Opportunities</u>
No direct benefits were identified for any option.

E. If any, what are the likely major impacts on social development?

A potential positive social impact is better budgetary management by government leading to better delivery of services and better reporting (accountability), to inform policy decisions on poverty reduction and livelihood improvements. A stronger accountancy profession, through capacity building efforts will equip people for future employment in local firms. The assumption is also made that there is social impact from the establishment of an institution which is recognised internationally and which can influence policy dialogue and the quality of information in the public domain

Across nearly all regions of the world, it is now common for more than half of accounting firm new hires to be women. Yet today, women only account for 5% to 20% of partners in CPA firms in economically developed countries and below 5% in many of the less developed countries. Lack of progress of women towards leadership positions remains the focus in countries that have initiatives to promote women, while the question of the presence of women in the profession still suffers from a lack of visibility in other countries, therefore not engaging consideration or investment by national and professional entities.

The annual Grant Thornton Business Report (IBR) found that regionally, there has been very little significant change over the past decade according to the global network with Eastern Europe (37%), Southeast Asia (35%) and China (38%) leading the way. Some of the lowest levels were recorded in Japan (9%), India and the United Arab Emirates (both 14%). The concern is that recent improvements in the access of women to education, especially in emerging markets, has not translated into higher proportions of women reaching the top of the corporate ladder and while women are more likely to achieve these senior roles in emerging markets, there has been a worrying lack of movement globally over the past decade.[9]

IFAC tracks data to show how gender, geographical balance and employment sectors are taken into account in making decisions within its own organisation. Output 4 will be used to define and agree the nature of sex-disaggregated data which may be obtained about the profession and in support of:

- Equal engagement of women and men in leadership of the accounting profession
- The advancement of women to positions of leadership
- The successful integration of personal and professional lives.

F. For fragile and conflict affected countries, what are the likely major impacts on conflict and fragility, if any?

Whilst programme countries are yet to be fully finalised under either option, there may be opportunities to work in fragile and conflict affected states. In such environments, there are likely to be significant challenges including low revenue collection and low business confidence which the strengthening of the accountancy profession may be able to improve. Increasing the transparency of public financial management may also contribute to accountability.

The experience of IFAC in countries including Kosovo is that PAOs in post-conflict environments exhibit a high willingness to reach international standards and establish their

[9] http://www.internationalaccountingbulletin.com/news/report-finds-numbers-of-women-in-senior-roles-stagnate-4192862/

professional organisations along with the wider process of institution building.

G. What are the costs and benefits of each feasible option? Identify the preferred option.

Costs

Option A: Support the IFAC proposal

Estimates of the total programme budget and the annual IFAC programme management cost are set out below. The estimate of total cost is based on 16 individual projects and on average benchmark costs for capacity building projects with PAOs. It should be noted that many IFAC PAOs also contribute in kind resources through the PAO Development Committee volunteers, who will also be involved in monitoring and evaluation and/or oversight activities.

As the tables below set out, the costs of the IFAC proposal are derived from technical assistance provided across 18 project objectives (under nine diagnostic elements) in each of the 16 countries. The proposal makes provision for structured diagnostic work, which is then matched with tailored capacity building by IFAC member PAOs to improve performance in these areas, in accordance with IFAC-defined ‘developmental levels’.

Programme Budget	
Total number of project objectives per country	9 elements x 2 levels = 18 project objectives
Total calculated expert time per country	18 project objectives x 20 days x £700 = £252,000
Overhead, travel and subsistence per country	10% x £25,200
Total country budget	£252,000 + £25,200 = £277,200
Total for 16 countries and regional programmes	16 x £277,200 = **£4,435,200**
Contribution to IFAC management costs	**£500,000**
Total project costs	**£4,935,200**

Programme Assumptions	
No. of diagnostic elements	9
No. of generic development levels	15
No. of countries and regional programmes	16
Duration of DFID facility to each country/region	5 years
Extent of average progress in the DFID facility	2 Development Leads
Start-up dates:	2015, 2016, 2017
Experts days per project objective	20
Expert daily rate (includes cost of managing agent, expected to be a developed PAO)	£700
Travel and subsistence	10%

Actual programme management costs will vary year to year, however, it is allocated evenly across the 7 year programme duration.

Estimated programme management cost	$
Staff costs	145,000
Administration Travel	40,000
Financial Reporting, Audit and Other Office Expenses	35,000
Total Annual Cost	220,000
	X 7 years
Total cost for 7 year programme	1,540,000
	£
Total cost for 7 year programme	963,000
Less: DFID contribution	(500,000)
IFAC contribution	463,000

Option B: DFID country office-led model

The costs of option B are driven by the frequency of technical assistance needed to meet the identified need, the cost of that technical assistance and the costs of administering the support. Based on estimates of five countries receiving ten assignments of 24 expert days each, over a three year period, a DFID country office-led model is expected to cost in the region of £1.5 million, profiled evenly over the period and based on the following assumed rates (per assignment):

Travel per assignment	750
Accommodation	1800
In-country expenses	800
Expert fees (assumes 20 days)	18,000
Administrative costs (estimate of staff time, etc)	4,250
Total	25,500

Note: Cost estimates are indicative only, based on travel and fee rates reported for similar technical assistance facilities. More detailed costings and fee policies would be developed as part of the programme planning stage.

The total costs estimated under this base scenario include a management cost of 20% of the total value of the programme. This is in line with the IFAC proposal and would incorporate costs such as DFID staff time that would be involved in administering this programme, which would likely involve contributions in the region of 0.5FTE centrally, 0.5FTE from each country office and additional administrative and procurement support.

Benefits

Both options A and B have the objective of strengthening PAOs. As the results chain of this type of capacity-building work is complex and dependent upon a wide range of institutional factors, direct quantification is difficult. The following qualitative benefits are expected under both options, to varying degrees:

- Government buy-in and engagement with the role of the accountancy profession and the role of regulators. The presence of international support opens doors and increases the dialogue.
- Understanding among government and stakeholders of the relevance of international standards and a drive to conform with them.

- An accelerated drive to improve public financial management and to implement accrual-based accounting standards.
- Increased role for professional accountants in business. There is an opportunity to build this role from the start of capacity building.
- Increased public trust in institutions.
- The ability to play a role in the development of other PAOs.
- Better training and oversight of the accountancy and auditing profession.
- Increased number and skills of accountants.
- Increased quality if financial and audit reports.
- Better financial management and decision making.

The degree to which these benefits are experienced will depend on the efficacy of the implementation model chosen. Whilst it is difficult to measure the ‘intensity’ of benefits likely to be delivered under options A and B, the experience of IFAC, as an international body with expertise in PAO development, is likely to yield additional efficiency gains over option B. Further, having a single coordinating body also improves the scope for lesson-learning across countries and for the development of best-practice over the lifetime of the programme (which is phased, to enable in-programme learning).

Option C: Do not intervene
No associated costs or attributable benefits.

Headline comparison of options A and B

In the absence of quantified benefits, a straightforward net present value comparison of the two options is not possible. The table below sets out a broadly comparable ‘cost per country, per active year’ measure – reflecting the different programme lengths (seven and three years respectively).

	DFID	IFAC
Programme duration (years)	3	7
Countries covered	5	16
Days of expert support, per country, per active year	80	72
Total programme cost to DFID (£)	1,544,873	4,935,200
Cost per country, per active year (£)	102,992	61,690

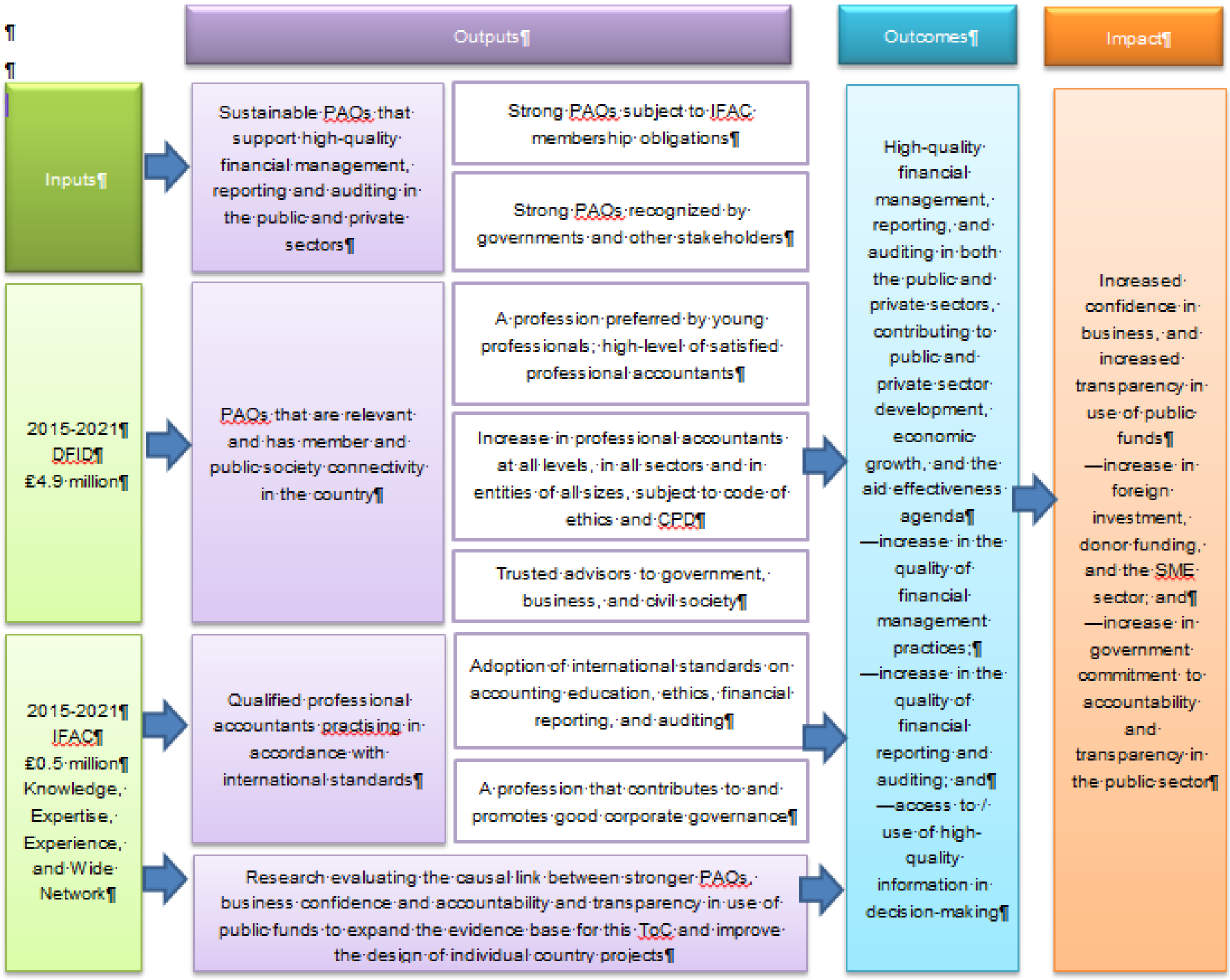
Choice of preferred option on basis of appraisal: Option A: Support the IFAC proposal

Option A has been identified as the most efficient means of supporting PAO development in DFID focus countries. IFAC have considerable experience of implementing peer-to-peer capacity-building programmes and already have existing professional relationships with PAOs in DFID focus countries that mean they are well-placed to assess their needs and potential.

The IFAC proposal places emphasis on sustainability and have a proven track record in supporting PAOs that go on to be self-sufficient and effective organisations. Further, the IFAC proposal is structured in a way that facilitates in-programme lesson learning – its phased implementation will allow knowledge to be built as the programme progresses and good practice to be transferred between countries.

Annex 2 includes a summary of a scenario analysis conducted, which shows that in the event of the most likely adjustments to the IFAC proposal (that non-DFID focus countries are dropped from scope), the per-year, per-country cost of implementing the IFAC proposal would still be lower than the option B model.

H. Theory of Change for Preferred Option



I. What measures can be used to monitor Value for Money for the intervention?

Value for money indicators will be developed with IFAC during the programme set-up phase. As noted above, IFAC have considerable experience of capacity-building programming and we hope to draw on this experience to develop VfM indicators. At this stage, possible measures of VfM are likely to include:

a. Average fee rate paid for expert PAO consultants (which should be lower than prevailing market rates).
b. Travel spend as a percentage of programme spend remains below 10% over the lifetime of the programme.
c. Estimated value of in-kind contributions made to the programme by IFAC member PAOs.
d. Cost per PAO supported (on a per assignment or aggregated basis).
e. Average cost of improving the PAO rating (defined by the IFAC development index or PEFA rating, for instance) by X places.

J. Summary Value for Money Statement for the preferred option

Delivery of PAO improvements through the IFAC proposal represents an efficient programming option for DFID. IFAC is a lean organisation, with technical committees comprised of volunteers from member PAOs.

On PAO development in particular, members of IFAC contribute a minimum of US$865,000 (approx. £540,000) of resources to the work of the PAO Development Committee (PAODC), developing tools and guidance, outreach, convening PAOs and regional organisations, for example. It is envisaged that PAODC members will contribute to this programme, which could include outreach with PAOs who are being assisted, Steering Committee representation, etc. The value of this is estimated at £200,000 (not included in the costs outlined above).

The peer-to-peer, short term technical assistance model will minimise expenditures, whilst building strong institutional links between experienced PAOs and their developing country counterparts. IFAC has access to a number of former PAODC members from around the world who are committed to the goal of PAO capacity building and have identified themselves as willing to contribute at out-of-pocket cost only. Experts engaged in PAO development through IFAC typically do so at rates considerably lower than market rates. The IFAC cost estimates above are based on an average daily rate of £700 but are likely to attract senior members of the profession who would normally be charged out at rates of £2000-£3000.

This cost-efficient model, combined with experience of delivering results that are measurable (e.g. as above, against PEFA scores) and with the potential for knowledge-generation that is relevant beyond this programme, represents a good value for money proposition for DFID. IFAC has invested around US$10m (approx. £6.25m) in capacity building to date (from a zero base in 2003). This proposal builds on that considerable knowledge of the PAO landscape, tools and guidance, well-developed methodologies for capacity building, and experience mobilising and engaging partners.

Commercial Case

Delivery through a third party entity (multilateral organisation; civil society organisation or support to government)

A. Why is the proposed funding mechanism/form of arrangement the right one for this intervention, with this development partner? This programme will be funded through an Accountable Grant to the International Federation of Accountants (IFAC). IFAC are the global body representing national level accountancy institutes or Professional Accounting Organisations (PAOs) from across the world, with a membership comprising 179 organisations across 130 countries. As such, they have access to the best expertise across the accounting profession and operate under a strong public interest mandate. No other provider is in a position to offer the leadership and convening power of IFAC, making them the most appropriate choice for a programme of this nature, which has institutional relationship-building at its centre.
B. What assurance has been obtained on capability and capacity to deliver? IFAC have extensive experience of delivering this peer-to-peer capacity building model and are considered leaders in the field. This particular PAO development model is an enhancement of work previously funded by USAID and others and in line with the MOSIAC initiative (*Memorandum of Understanding to Strengthen Accountancy and Improve Collaboration*), backed by the major IFIs, including the World Bank. PAO development is also a core activity of IFAC as an organisation, with a dedicated committee (PAODC) to further this aspect of the organisation's work. The PAODC is a Committee of IFAC and reports to IFAC. This is done through a system of quarterly written reports to the Board, an in-person annual report by the Chair to the Board and an annual report to the IFAC Council. Members of the Committee are appointed by IFAC's board on recommendations from the Nominating Committee. The work of the Nominating Committee is overseen by the Public Interest Oversight Board. The governance arrangements of IFAC are that the various committees report to the IFAC Council, which comprises one representative from each member. The Council meets once a year and is responsible for deciding constitutional and strategic matters and electing the Board. A Special Meeting of Council was held on February 25, 2014; the next Ordinary Meeting of Council will be held November 7, 2014. In addition, there is a full-time Secretariat which is responsible for the implementation of the strategy approved by Council and for the day-to-day operations of the organization, headquartered in New York. IFAC is staffed by accounting professionals from around the world.[10] In researching this proposal, DFID held a number of informal meetings with each of the five UK Chartered Accountancy Institutes and asked them to comment on their experience of IFAC as an organisation. Each one provided positive feedback and noted the unique position

[10] For an update on IFAC's operations and activities, view its most recent annual report: http://www.ifac.org/publications-resources/2012-ifac-annual-report

IFAC holds in the development of the profession globally.
C. Is there an opportunity to negotiate on anticipated costs? Discussions are currently in progress. In particular, DFID will look to reshape the geographical scope of the programme to ensure a focus on DFID partner countries and rebalance resources to increase the expertise available to them. Under this proposal, DFID will fund around half of the programme's operating costs – we will look to reduce this amount if other donors join the initiative. This proposal will be discussed with the IFAC programme leads. As set out in Section G above, there are also contributions in kind to be made by IFAC PAO members and associates.

Financial Case

A. Who are the recipients of all proposed payments?

The programme will be administered by IFAC, who will receive DFID funds. IFAC will then contract the expertise of member PAOs on a competitive selection basis It is not possible at this stage to specify which member PAOs will be suitable for each of the country programmes.

B. What are the costs to be incurred directly by DFID?

Estimates of the total programme budget and the annual IFAC programme management cost are set out below. The estimate of total cost is based on 16 individual projects and on average benchmark costs for capacity building projects with PAOs.

Programme Budget	
Total number of project objectives per country	9 elements x 2 levels = 18 project objectives
Total calculated expert time per country	18 project objectives x 20 days x £700 = £252,000
Overhead, travel and subsistence per country	10% x £25,200
Total country budget	£252,000 + £25,200 = £277,200
Total for 16 countries and regional programmes	16 x £277,200 = **£4,435,200**
Contribution to IFAC management costs	**£500,000**
Total project costs	**£4,935,200**

Total project costs are provisionally profiled 2015-2021 as outlined in the table below.

	DFID	**IFAC**
2015	£171,00	£59,000
2016	£695,000	£130,000
2017	£1,147,000	£98,000
2018	£1,061,000	£55,000
2019	£855,000	£52,000
2020	£880,000	£55,000
2021	£126,000	£14,000
TOTAL	**£4,935,000**	**£463,000**

Actual programme management costs will vary year to year, however, it is allocated evenly across the 7 year programme duration.

Estimated programme management cost	$
Staff costs	145,000
Administration Travel	40,000
Financial Reporting, Audit and Other Office Expenses	35,000
Total Annual Cost	220,000

	X 7 years
Total cost for 7 year programme	1,540,000
	£
Total cost for 7 year programme	963,000
Less: DFID contribution	(500,000)
IFAC contribution	463,000

C. What are the costs to be incurred by third party organisations?

IFAC itself will fund £463,000 of the total management cost of the programme (£963,000). This will be met by IFAC resources, the majority of which are from member subscriptions.

In addition, it is expected that over the lifetime of the programme, IFAC member PAOs will contribute in-kind resources to the programme (including contibutions to monitoring, evaluation and oversight functions). Please see VfM statement above for more details.

D. Does the project involve financial aid to governments? If so, please define the arrangements in detail.

Not applicable.

E. Is the required funding available through current resource allocation or via a bid from contingency? Will it be funded through capital/programme/admin?

Funded through the current resource allocations of Growth and Resilience Department (GRD) and Governance, Open Societies and Anti-Corruption Department (GOSAC), from programme spend on a 50:50 basis. As GOSAC will be managing the programme on a day to day basis, agreement will be required from H/GRD that the funds are passed over to GOSAC for disbursement to IFAC. A folder will be created by ARIES which will be set up in GOSAC files and accessible by GRD. Colleagues in GOSAC and GRD will agree jointly on the oversight and Annual Reporting mechanisms to ensure an equal engagement on technical issues and understanding of progress.

F. What is the profile of estimated costs? How will you work to ensure accurate forecasting?

See section B above.

G. What is the assessment of financial risk and fraud?

Low. IFAC is an international body with accounts audited under the regulations of the USA with a published strategic plan and annual reports.

http://www.ifac.org/publications-resources?publication-type=77&source=&language=87&keyword=Search+Publications&x=71&y=13

IFAC should provide the donor with a copy of its general purpose financial statements, together with the audit opinion on those statements. These statements are prepared in accordance with International Public Sector Accounting Standards and audited in accordance with International Standards on Auditing. These statements are prepared in United States Dollars.

H. How will expenditure be monitored, reported and accounted for?

Each project supporting a PAO will have its own budget which will be reported back to IFAC on a quarterly basis. The consolidated financial report from each component project will be provided to DFID by IFAC on a quarterly basis before the next tranche of money is transferred. The last quarterly financial report will contribute to DFID's Annual Review by addressing the projected spend on outputs in the logical framework against the actual spend and overall progress against the outcome and impact indicators.

I. Are there any accounting considerations arising from the project?

No

Management Case

A. What are the Management Arrangements for implementing the intervention?

To guide the selection of target countries for this project, IFAC has developed a set of criteria that incorporate both DFID and IFAC priorities, which include: the selection of all DFID Partner Countries where there is no IFAC member or associate, and cross matching with the list of priority countries maintained by IFAC's PAO Development Committee; a focus on countries which are on the 2013 OECD list of fragile states; inclusion of countries which are of strategic importance to the development of the profession in the region: a focus on DFID policy (Capital Markets Development for the 5 countries in East Africa); and inclusion of countries where, based on IFAC's current information, there is potential to benefit from a capacity building programme. The exact areas of work will be agreed after further diagnostic work has been done in an inception phase of the programme, to determine the priorities for any given country/PAO. This approach combines the development of a programme which is tailored to DFID's priorities and also governed by IFAC's knowledge of the status of the profession within countries. IFAC will form an **Independent Selection Panel**, comprising a small number of impartial but knowledgeable and experienced individuals. The purpose of the panel will be to select partner organisations (e.g., developed PAOs) on country level projects. Individual consultant selection would be the choice of the partners and/or IFAC, depending on the circumstances.

The proposed programme timeline will provide a high-level overview of the programme steps to be taken in relation to each target country or group of countries over a period of seven years using the following steps:

- Diagnostic validation and confirmation
- Project mobilisation
- Project launch
- Project monitoring, and evaluation
- Project completion

The programme timeline represents a staggered approach of engagement in the participating countries. It is proposed that a limited number of countries is selected based on diagnostic validation and confirmation (needs analysis) to start the programme in the first year. Additional countries will then be selected and added in the following years. This approach enables spreading the work load and allows adjustments based on experience. It enables the creation of networks of PAOs in different stages of development to use in a peer-to-peer learning environment and provides an opportunity to use learning networks and recent experience to select countries on a regional basis from the following groups (lists): (1) countries with no PAO, (2) countries with IFAC associate PAO(s), and (3) countries with IFAC member PAO(s). It also provides an opportunity to implement capacity building activities using a South-South development concept whenever feasible and appropriate, e.g., with DFID partner countries.

IFAC will provide a management infrastructure for pre-implementation activities and programme administration above the country and regional levels. The primary programme management functions will include:

- Project mobilisation—determination of overall objectives and country counterparts
- Project launch—issuance of Terms of Reference; selection of partners/consultants; maximisation of collaboration with partner organisations (e.g., Regional Accountancy

Bodies, and developed and developing PAOs); prioritisation of development activities; establishment of milestones

- Administration—management of the database of partners/consultants; preparation of financial reporting and facilitation of auditing; administration of the Project Steering Committee and Independent Selection Panel.

IFAC will form a **Project Steering Committee,** comprising DFID representatives, IFAC volunteers (e.g., IFAC Board and/or PAO Development Committee members) and IFAC management. It is envisaged that this group will provide both an accountability and project steering mechanism.

B. What are the risks and how these will be managed?

There are a number of risks, which are common to many capacity building initiatives, which could affect the countries participating in this programme. They can be categorised as external and internal factors. The **external** factors include: national legal and regulatory frameworks need to be established within which PAOs operate; poor engagement of government in recognising the need for reform and capacity building in financial capabilities; lack of provision of government budgets for training institutes; weak or non-existent national leadership or changing leadership within PAOs; lack of provision/accountability in reporting; lack of follow up to audit recommendations (for political reasons).

Internal factors include: inappropriate advice provided; unavailability of experts to provide technical assistance in a timely manner; inappropriate project component sequencing; surpassing timeline; and poor coordination with ongoing projects/activities as well as between elements/levels, as set out below.

Sequencing: Sequencing of project components presents a potential risk as without undertaking certain components prior to others there is a risk of repetition or disjointed project completion. To mitigate this risk, IFAC should work with contractors selected to work through proper overall project and component sequencing so as to minimize delays, redundancies and work which is at cross-purposes.

Surpassing Timeline: As this project includes components which may be very time consuming (e.g., legislative reform) and as it includes an inherent degree of need for sequencing, there is risk associated with ensuring on-time project completion. To mitigate this risk, it is recommended to spend appropriate project planning time in determining sequencing, work with contractors and country stakeholders to create realistic timelines for achievement and work with contractors to determine when and if extensions may be beneficial.

Poor Coordination: As this project is comprised of ten components there is the risk for piecemeal completion of the project, redundancies and work at cross-purposes. To reduce this risk, it is recommended to tender the project as one project or to group project components into a small group of tenders to minimize the degree of coordination required amongst contractors. Additionally, IFAC should actively work to encourage communication and coordination among and between components.

In addition, there is a risk that the a country PAO will not live up to expectation according to the diagnostic that IFAC undertakes at the start. This risk will be mitigated by strong oversight by the partnering PAO and reporting of the circumstances at the earliest possible opportunity to IFAC for remedial action.

There is also a risk that a PAO mentor partner might not deliver the right support to a mentee's capacity building programme. This will be mitigated through careful mentor selection, including consultation with the PAO receiving support, as well as oversight from the programme manager during the programme.

There is a risk that the beneficiaries of this support, as mid-level professionals, will not contribute in the way intended to the development of their profession and the overall impact of this programme. This will be mitigated by strong oversight by IFAC and action to tackle the lack of performance. Since the incentive for the PAO establishment or development is in the interests of the participants it is expected that this risk would be low. IFAC will also be undertaking a series of relevant research commissions looking at the links between better accountancy and the impact of the programme, which will also inform how they manage poor performing PAOs. Since the programme is designed to be through a series of graduated support raising the level of competence at each level, it will be for IFAC properly to determine at what stage the country concerned is operating and provide support accordingly.

Care will need to be taken that the Independent Selection Panel for the selection of participating PAOs will be properly independent. This risk will be mitigated by ensuring that the composition of the Panel is vetted and agreed by external parties, including DFID.

C. What conditions apply (<u>for financial aid only</u>)?

N/A

D. How will progress and results be monitored, measured and evaluated?

There will be an inception phase of six months when IFAC will work further on the diagnostics of countries they currently wish to engage with on this programme and when baselines for the logical framework will be set and both the countries and the baselines agreed with DFID. The research programme will also be further defined, although the intention is that the research and evidence output will remain quite flexible for the duration of the programme.

After the six month inception phase, the reporting arrangements on a quarterly basis will commence and feed into the Annual Reporting cycle.

It is proposed that there should be an independent evaluation of the programme two years after the inception phase (i.e., 2.5 years after start of the programme) and again two years after that, i.e., 5.5 years after the start of the programme). The second evaluation will be eighteen months before the formal end of the programme when progress against the outcome and impact indicators will be more thoroughly judged.

Lograme

Quest No of logframe for this intervention: 4416329

Annex 1

IFAC membership or associate membership of DFID focus countries

Members (15)	**Associate (3+2)**
Bangladesh (2)	Kyrgyzstan (1)
Ghana (1)	Nigeria (1)
India (2)	Pakistan (1)
Kenya (1)	OPTs (1)
Liberia (1)	Rwanda (1)
Malawi (1)	
Nepal (1)	
Nigeria (1)	
Pakistan (2)	
Sierra Leone (1)	
South Africa (2)	
Tanzania (1)	
Uganda (1)	
Zambia (1)	
Zimbabwe (1)	

Number of member institutes in brackets

10 DFID focus countries are neither members or associates of IFAC: Afghanistan, Burma, Democratic Republic of Congo, Ethiopia, Mozambique, Sierra Leone, Somalia, Sudan, South Sudan, Tajikistan, Yemen

Annex 2

Scenario analysis of option A and B costs

Base scenario Base

	DFID	IFAC
Programme duration (years)	3	7
Countries covered	5	16
Days of expert support, per country, per active year	80	72
Total programme cost to DFID	1,544,873	4,935,200
Cost per country, per active year	102,992	61,690

IFAC

Scenario 1: Limit to DFID countries only

Countries covered	10
Days of expert support, per country, per active year	115
Total programme cost to DFID	4,935,200
Cost per country, per active year	98,704

Scenario 2: Maintaining scenario 1 with an increase of 25% in expert fee rates

Countries covered	10
Days of expert support, per country, per active year	115
Total programme cost to DFID	6,044,000
Cost per country, per active year	120,880

DFID

Scenario 1: Number of assignments needed per country, per year, must increase (by one) to meet objectives

Countries covered	5
Days of expert support, per country, per active year	100
Total programme cost to DFID	1,931,091
Cost per country, per active year	128,739

Scenario 2: Management costs rise by an additional 10 percentage points

Countries covered	5
Days of expert support, per country, per active year	115
Total programme cost to DFID	1,673,612
Cost per country, per active year	111,574