

ISAR 33

PRACTICAL IMPLEMENTATION OF THE MONITORING OF COMPLIANCE AND ENFORCEMENT OF ACCOUNTING AND AUDIT REQUIREMENTS FOR HIGH-QUALITY REPORTING

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Introduction & background

- **Practical implementation of standards is necessary in order to maximize the benefits of a high-quality reporting environment.**
- An effective system of **monitoring of compliance and enforcement (MCE)** provides a solid foundation for financial stability and sustainable development.
- The overall **objective of the MCE system** is to strengthen the corporate reporting infrastructure to ensure high quality of reporting which meets needs of its users.

Guidance Development

- At ISAR 31, member States requested that UNCTAD prepare a **guidance on MCE**.
- It takes into consideration the feedback from **ISAR 32**, results of the application of **Accounting Development Tool (ADT)** in a number of countries, and **five case studies** prepared for Australia, Belgium, Canada, Germany and the United Kingdom.
- **Consultative group meetings** organized in June 2015 and April 2016 provided additional inputs on the working paper.
- **Output:** Monitoring of Compliance and Enforcement for high quality reporting: Guidance on good practices.
- **ISAR 33 discussions will be considered for finalization and publication of the document.**

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Key guiding principles

- Public interest focus
 - Independence
 - Transparency and accountability
 - Confidentiality
 - Proportionality
 - Cooperation and coordination
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- These principles span core elements of MCE: **legal requirements, governance mechanisms, activities and methodologies, staff competency, funding, and impact assessment.**

MCE Guidance Scope & Objective

Objective: to provide guidance to relevant policy makers and other stakeholders in the area of corporate reporting on the key elements of an efficient MCE system, identifying the main challenges to be addressed and sharing international good practices.

The current guidance highlights the **three key areas of the MCE system**

:

- 1. Corporate reporting requirements:**
(International) standards in financial and non-financial corporate reporting
- 2. Auditing and quality assurance:**
Refers to the compliance with rights and duties of statutory auditors
- 3. Professional accountants:**
Qualifications of reporting cycle professionals in their work

- ✓ Definition
- ✓ Scope and objectives
- ✓ Institutional arrangements
- ✓ Activities and methodologies
- ✓ Impact assessment

Major challenges

- **Complexity** of MCE system
- **Inter-dependence** with institutional and legal settings
- Lack of awareness of **good practices**, especially in **developing** country contexts
- Resource inadequacy in both **funding** and **staffing**
- Diverse methodologies in **inspection** and **selection**
- Holistic **impact assessment** of MCE

Specific issues

- **Non-financial reporting** is increasingly important and valued by investors and other stakeholders
- The **public sector** plays an important role in some economies. Despite standards (e.g. IPSAS), no consensus on this area of reporting
- **SMEs** critical to growth and sustainability, and reporting is linked to access to finance.

(Issues in education and cost effectiveness of MCE)

Issues to discuss

- Should **other principles** be considered in the draft guidance?
- What **staffing and funding arrangements** are needed to ensure an efficient MCE system without compromising its independence, especially in countries that lack resources?
- What specific challenges need to be taken into consideration in MCE for **non-financial reporting**, or reporting by **SMEs** and the **public sector**? What about microenterprises?
- What are some good practices for **capacity-building**, including with regard to human resources, in order to ensure an effective MCE system?
- How can **ISAR** further contribute to the work on MCE for high-quality reporting?
- Other issues and suggestions?

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