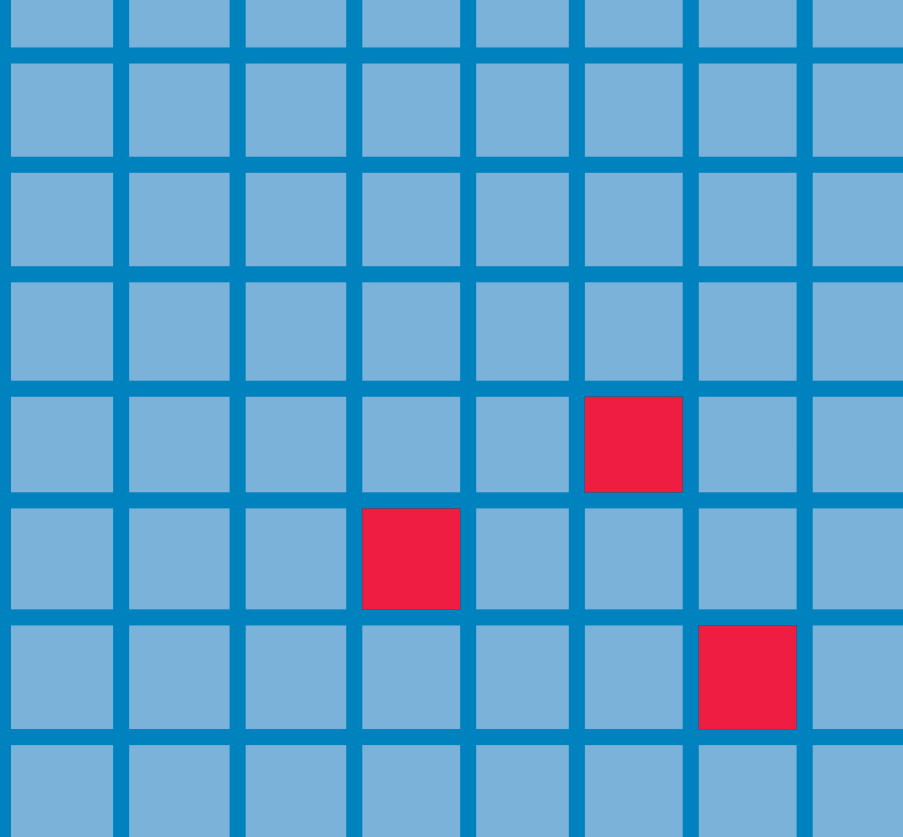




INTERNATIONAL ACCOUNTING and REPORTING ISSUES



2013 Review



UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

**INTERNATIONAL
ACCOUNTING and
REPORTING ISSUES**

2013 Review

Report by the secretariat of the
United Nations Conference on Trade and Development



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New York and Geneva, 2014

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Preface

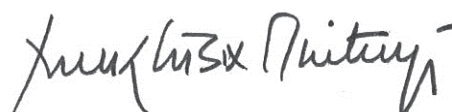
UNCTAD has been privileged to service for many years the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR) which held its thirtieth anniversary session in November 2013 at the Palais des Nations in Geneva. Through ISAR, the United Nations has been contributing to a better understanding of the issues surrounding reliable and comparable corporate reporting with a view to assisting member States in creating conducive environment for domestic and international investment.

Member States efforts aimed at increasing their respective shares of world trade is significantly influenced by their ability to increase their productive capacities. In this respect, the positive role of a dynamic private sector cannot be overemphasized. In order to increase the volume of goods and services they produce, large as well as small and medium-sized enterprises (SMEs) need a reliable source of financing at a reasonable cost. Thus, mobilizing domestic and international investment is paramount. Fostering confidence of domestic as well as international investors requires high-quality financial and non-financial reports.

One of the implications of the rapid globalization of the world economy and growing integration of financial markets around the world has been the development of international accounting and reporting standards and codes for corporate reporting. The past decade has been particularly characterized by a widespread adoption of global norms such as International Financial Reporting Standards and International Standards on Auditing.

Over the last four years, ISAR has been developing an Accounting Development Tool (ADT) which facilitates an integrated and systematic approach towards implementing international standards and codes of corporate reporting. The ADT is built on the foundation of four pillars: a legal and regulatory pillar, an institutional pillar, a human capacity pillar and a capacity-building process pillar. Developing competent human capacity is highly essential for the successful implementation of international standards and codes and ultimately for producing high-quality corporate reports.

It gives me great pleasure to present this volume which contains a review of trends, recent developments and challenges as well as country case studies on human capacity development in the areas of accounting and corporate reporting.



Mukhisa Kituyi

Secretary-General of UNCTAD

Introduction

The *International Accounting and Reporting Issues: 2013 Review* is dedicated to the topic of human capacity development in relation to meeting the requirements for high-quality corporate reporting. Through ISAR, the United Nations has been contributing towards promoting more reliable and comparable corporate reporting around the world. A number of ISAR sessions dealt with topics related human capacity development and regulation in the area of accounting and reporting. For example, in one of its earlier sessions, in March 1985, ISAR examined ways and means of developing education, research and practical training in the field of accounting in member States. In 1989 and 1990, the Group of Experts conducted similar deliberations focused on the accountancy profession in Africa. In 1996, ISAR considered the regulation of the accountancy profession in developing countries and countries with economies in transition. One of ISAR's notable contributions to the professional education and training of accountants was the Model Accounting Curriculum it adopted at its sixteenth session in February 1999, which was later revised at its twentieth session in October 2003.

Recent ISAR sessions were dedicated to developing a comprehensive approach to achieving high-quality corporate reporting. To this end, over the past four years, ISAR has been developing and refining the ADT (adt.unctad.org). It consists of an accounting development framework and a set of accounting development indicators. The ADT is built on the foundation of four pillars: a legal and regulatory pillar, an institutional pillar, a human capacity pillar and a capacity-building process pillar. At its twenty-ninth session, ISAR conducted further deliberations on the two pillars of the ADT, that is, the legal and regulatory pillar, and the institutional pillar.

The ADT recognizes the critical importance of human capacity for achieving high-quality corporate reporting and as such - an entire pillar of the ADT is dedicated to this topic. There are a number of human capacity related challenges that countries face when implementing corporate reporting standards and codes developed at a global level. These challenges occur to a varying extent in all countries regardless of the level of economic development. Reorientation of existing national education systems to integrate globally developed standards and codes could take a considerable amount of time - in some cases an entire generation. The shorter the transition time, the more challenging it becomes for member States to develop the necessary competencies needed for implementing the global standards. Thus, developing human resources capacity for corporate reporting in a sustainable manner requires regulatory and institutional support as well as reliable sources of funding.

Chapter I of this volume presents a review of human-resources development trends and challenges in achieving high-quality corporate reporting. It highlights trends such as the adoption and implementation of international standards and codes, the increasing regional cooperation as well as international cooperation among regulators of the accounting profession, and the emergence of education initiatives. It also discusses some of the major challenges in building human capacity. These include the need to strengthen and harmonize the education system to incorporate international requirements, particularly in developing countries, and the need to create sound systems of certification, continuing professional development (CPD), and discipline and sanctions to ensure proper implementation of standards. Other issues discussed include the need for training activities across the reporting chain and the lack both of training

for accounting professionals and of involvement of professional accounting organizations (PAOs) in the public sector.

To gain better insights into the issue of human capacity development in the areas of accounting and reporting, the UNCTAD secretariat conducted country case studies in Chile, Denmark, Malaysia, the Russian Federation and the United Republic of Tanzania. Chapter II presents highlights of the main findings of the country case studies. Chapter III to VII contain the respective country case studies which examine: the national education systems, including whether there are clearly defined entry requirements to the accounting profession and whether entry requirements create barriers to entry to the accountancy profession; the regulatory framework, including issues related to licensing of auditors, continuing professional development requirements, and related disciplinary sanctions and enforcement mechanisms; institutional framework, including description of the different institutions involved in the process of education, certification and continuing professional development of accountants and auditors, and coordination mechanisms among the different institutions; integration of international requirements in the national system, implementation of International Education Standards for professional accountants, meeting the demand for competent professional accountants, code of ethics, language barriers; training and professional development of others involved in the corporate reporting supply chain; capacity-building needs; and lessons learned.

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Chapter I. Key Foundations for High-quality Corporate Reporting: Human Resources Development Challenges

A. Introduction and background

There are a number of human capacity related challenges that countries face when implementing corporate reporting standards and codes developed at a global level. These challenges occur to a varying extent in all countries regardless of their level of economic development. Reorientation of existing national education systems to integrate globally developed standards and codes could take a considerable amount of time – in some cases an entire generation. Transition to a new accounting framework is challenging and a critical integral component of managing such a transition period is developing the necessary competencies in relation to implementation of the global standards. Thus, developing human resources capacity for corporate reporting in a sustainable manner requires regulatory and institutional support as well as reliable sources of funding.

B. Trends in corporate reporting and their implications for human capacity development

Over the past decade, there has been a clear trend towards adoption of international standards and codes by member States. This trend has had highly significant implications for member States with respect to human capacity development on a number of corporate reporting topics.

In 2001, the International Accounting Standards Board (IASB) was established as part of the International Accounting Standards Committee, which has been superseded by the International Financial Reporting Standards (IFRS) Foundation. At present more than 125 jurisdictions worldwide either permit or require the use of IFRS issued by the IASB.¹

Analysis by UNCTAD² shows that among the largest 5,000 enterprises (in terms of total assets) around the world, 35 per cent prepared their 2010 financial statements in accordance with IFRS, 38 per cent applied national standards, and 27 per cent applied Generally Accepted Accounting Principles (GAAP) in the United States of America. From 2009 to 2010, the number of entities that applied IFRS increased by more than 11 per cent. The majority of entities that adopted IFRS in 2010 were from Brazil, followed by Chile.

The International Auditing and Assurance Standards Board (IAASB) was established in 2002, superseding the International Auditing Practices Committee. International Standards on Auditing (ISAs) issued by the IAASB are being implemented by over 125 jurisdictions in various forms.³ For example, ISAs are the national auditing standards in 29 countries. In February 2009, the IAASB completed its Clarity Project through which 36 ISAs and the International Standard on Quality Control were rewritten with a view to clearly articulating the requirements in the standards following new drafting conventions.

A similar trend has been occurring in the area of non-financial reporting. UNCTAD ISAR published guidance on corporate governance disclosure and on

¹ Based on data maintained by www.iasplus.com.

² UNCTAD, *International Accounting and Reporting Issues: 2011 Review*, UNCTAD/DIAE/ED/2012/4.

³ See <http://www.ifac.org/about-ifac/membership/compliance-program/basis-isa-adoption>.

corporate responsibility reporting in March 2006 and February 2008, respectively. The Global Reporting Initiative published the first set of Global Reporting Initiative indicators in 2000 and, in May 2013, launched the fourth generation of its indicators.

In the area of accounting education the International Accounting Education Standards Board (IAESB) was established in 2005, replacing the Education Committee of the International Federation of Accountants (IFAC). The IAESB issued eight International Education Standards (IESs) on a range of topics: entry requirements; content of professional accounting education programmes; professional skills and general education; professional values, ethics and attitudes; practical experience requirements; assessment of professional capabilities and competence; continuing professional development; competencies for audit professionals.

In October 2009, the IAESB agreed on a project⁴ to redraft IES 7 on continuing professional development, and to revise and redraft the remaining IESs. In December 2009, the IAESB published the Framework for International Education Standards for Professional Accountants. The objectives of the redrafting exercise are to improve clarity, ensure consistency with concepts of the revised framework, and clarify issues resulting from changes in the environment of professional accounting education and the experience gained from implementation of the standards by IFAC member bodies. As of July 2013, IES 1, 5, and 6 have been revised and IES 7 has been redrafted. It is expected that all will be revised or redrafted by the fourth quarter of 2013.⁵

The benefits of globally recognized corporate reporting standards, such as IFRS, ISAs and various codes on environmental, social and corporate governance issues for promoting reliability and comparability of corporate reports around the world are widely recognized. However, the benefits provided by such corporate reporting standards can only be attained if they are adequately implemented. Consistent implementation depends to a great extent on the availability of properly trained human resources. This is a comprehensive task considering the increasing complexity of the content of the teaching material, as well as a growing number of accountants to be trained.

The number of professional accountants appears to have been growing over recent years. For example, the six chartered accountancy bodies⁶ in Ireland and the United Kingdom of Great Britain and Northern Ireland, as well as the Association of International Accountants have been experiencing growing numbers of professional members and students both domestically and worldwide.⁷ The total number of members of the six bodies grew by 19.7 per cent from 2006 to 2011, reaching a total of 438,146. Over the same time period, the number of members of these professional bodies outside of Ireland and the United Kingdom grew by 28.8 per cent. The number of students registered with the six professional bodies grew by 30.8 per cent, reaching a total of 452,119. It is also important to note that among the members of the six professional accountancy bodies, the percentage of professional accountants employed in the public sector is very low (below 10 per cent) for most of the six PAOs, with the exception of the Chartered Institute of Public Finance and Accountancy (60 per cent).

⁴ See <http://www.ifac.org/education>.

⁵ See "Update: International Education Standards Revision Project", IAESB, at www.ifac.org/Education.

⁶ The six Chartered Accountancy Bodies in the United Kingdom are the Association of Chartered Certified Accountants (ACCA), Chartered Accountants Ireland (CAI), Chartered Institute of Management Accountants (CIMA), Chartered Institute of Public Finance and Accountancy (CIPFA), Institute of Chartered Accountants in England and Wales (ICAEW), and the Institute of Chartered Accountants of Scotland (ICAS).

⁷ Financial Reporting Council, Professional Oversight Board, *Key Facts and Trends in the Accountancy Profession, June 2012*.

In the United States, the number of students enrolled in undergraduate and graduate accounting programmes has grown to 225,000. Enrolment in masters of accountancy degree programmes grew by 30 per cent from 2009 to 2011.⁸ In 2010, among new graduates hired by accounting firms in the United States, 43 per cent had a bachelor's degree in accounting while 37 per cent held a master's degree in accounting and the rest had non-accounting degrees. The number of hires with a bachelor's degree has been decreasing since 2007, while the corresponding numbers of graduates with master's degrees has been increasing over the same period. A survey of accounting departments that participated in the study indicated that 70 per cent already included IFRS material in the courses they offered to their students. All schools surveyed also responded that they would include some IFRS material in their curriculum by 2013. As of January 2011, the Uniform Certified Public Accountant (CPA) Examination in the United States was revised to include, among other topics, IFRS.

In view of the trend towards the adoption and implementation of international standards, the need for harmonization of an internationally accepted qualification for professional accountants and auditors has become more evident. Recently many important initiatives took place reflecting this development.

Addressing this challenge, the Education Initiative of the IFRS Foundation⁹ has been contributing to the adoption and consistent application of IFRS, including by organizing a series of regional half-day IFRS teaching workshops with a view to assisting IFRS teachers and trainers to educate accountants on IFRS more effectively. One of the main components of these workshops has been to encourage and support a framework-based approach to teaching IFRS. This is intended to develop in students the ability to make professional judgments in applying principles-based accounting standards and to prepare students for lifelong learning. The Education Initiative has also been organizing train-the-trainers events on the IFRS for SMEs.

As of August 2011, the American Institute of Certified Public Accountants, the National Association of State Boards of Accountancy and Prometric started offering the Uniform CPA Examination outside of the United States in Bahrain, Brazil, Japan, Kuwait, Lebanon and the United Arab Emirates. The National Association of State Boards of Accountancy¹⁰ noted that the Uniform CPA Examination was being offered internationally in response to a rapidly escalating international demand for United States CPA licensure.

In response to the European Union International Accounting Standards Directive of 2002, seven European PAOs launched the Common Content Project with a view to harmonizing their respective professional qualification requirements by 2007.¹¹ Over time, membership in the project has grown to nine PAOs from six European Union member States. It is also useful to note that membership to the Project is open to all PAOs around the world. The Project has produced the Common Content Qualification Requirements articulating what needs to be fulfilled by a programme for the qualification of an entry-level professional accountant.

The growing adherence to IESs has a positive effect in the improvement of comparability of qualifications. Nowadays, mobility of professionals across borders has increased, especially among developed countries.

⁸ American Institute of Certified Public Accountants, *2011 Trends in the Supply of Accounting Graduates and the Demand for Public Accounting Recruits*, Durham, North Carolina, United States of America.

⁹ See <http://www.ifrs.org/Use-around-the-world/Education/Pages/Education.aspx>.

¹⁰ See <http://nasba.org/international/international-exam/>.

¹¹ See www.commoncontent.com.

As an example, the North American Free Trade Agreement facilitated the emergence of a mutual recognition agreement between Canada, Mexico and the United States.¹² This agreement, initially signed in 2002 and again renewed for five years in 2008, allows for accounting professionals to practice across borders¹³ after fulfilling examination (Chartered Accountancy Reciprocity Examination in Canada, Mexquex in Mexico, Iquex in the United States) and experience requirements put in place by the country where mutual recognition is sought. Since the inception of the mutual recognition agreement, 90 per cent of all applicants are Canadians wishing to practice in the United States, followed by 7 per cent of United States applicants wishing to practice in Canada and 3 per cent of Mexicans wishing to practice either in the United States or Canada.¹⁴

The Global Accounting Alliance¹⁵ was formally announced in 2006. It includes nine institutes from different countries around the world. The Alliance's aim is to promote the delivery of quality professional services, support its global membership base, share information and collaborate on international accounting issues. The alliance provides professional support to its 700,000 members. It also works with national regulators, Governments and stakeholders, through member-body associations. In June 2011, the governing bodies of the American Institute of Certified Public Accountants and the Chartered Institute of Management Accountants (based in the United Kingdom) unanimously voted to create a new professional designation – the Chartered Global Management Accountant. The designation was officially launched globally on 31 January 2012. It was highlighted at the launch that the Chartered Global Management Accountant qualification was intended to provide companies with the competencies needed for better integration between financial and non-financial information, with a view to driving business growth and to include that information in the financial reporting process.¹⁶

In March 2008, the Certified General Accountants Association of Canada and CPA Australia entered into a mutual recognition agreement with a term of five years.¹⁷ In March 2013, the second Canada–Australia Roundtable on Foreign Qualification Recognition¹⁸ gathered representatives from Government, professional regulatory authorities, employers, academia and immigrant-serving organizations to discuss current issues in qualification recognition, share best practices, strengthen professional linkages, and work towards enhanced labour mobility. As a result, the mutual recognition agreement between the Australian and Canadian counterparts was resigned. In Australia, the Institute of Chartered Accountants¹⁹ has reciprocal agreements with eight institutions.

¹² Peek L, Roxas M, Peek G, McGraw E, Robichaud Y and Villarreal JC (2007), NAFTA professional mutual recognition agreements: Comparative analysis of accountancy certification and licensure, *Global Perspectives on Accounting Education*, 4:1–27.

¹³ See <http://nasba.org/international/mra/>.

¹⁴ Sa C and Gaviña Patricia (2012), Asymmetrical regionalism in North America: The higher education sector since NAFTA Norteamérica, *Revista Académica del CISUN-UNAM*, 7(2):111–140.

¹⁵ See <https://www.saica.co.za/Members/AboutMembers/AbsenteeMembership/GAAPassport/tabid/763/language/en-ZA/Default.aspx>.

¹⁶ *Chartered Global Management Accountant Magazine* (2012), “CGMA launch focuses on non-financial value, long-term business strategies”, 31 January.

¹⁷ See <http://www.cpaaustralia.com.au/cps/rde/xchg/cpa-site/hs.xsl/become-started-affiliations-international-affiliations-cga-canada.html>.

¹⁸ See <http://www.cic.gc.ca/english/department/media/releases/2013/2013-03-23.asp> and <http://www.pppforum.ca/sites/default/files/Annex%201.pdf>.

¹⁹ See <http://www.charteredaccountants.com.au/The-Institute/Migration-assessment/Recognised-accounting-qualifications.aspx>.

In May 2013,²⁰ the institutes of chartered accountants of the two countries agreed to form a new Trans-Tasman Institute as a follow up to the Closer Economic Relations Agreement between Australia and New Zealand signed in 1983. In this context, leaders of the institutes in the respective countries indicated that a joint institute would be beneficial for both countries. The structure would be a more sustainable institute with greater scale, and with increased policy formulation and advocacy capability as well as global influence. The joint institute is envisioned to have the critical mass needed to offer enhanced training, professional development and global business connections.

In January 2012 the three national professional accountancy bodies in Canada, that is, the Canadian Institute of Chartered Accountants (CICA), the Certified Management Accountants of Canada and the Certified General Accountants of Canada, published a framework for merger.²¹ By merging, the three professional bodies expect to: best serve the profession and protect the public through the provision of a common certification programme and a single set of high ethical and practice standards; enhance and protect the value of the designation in an increasingly competitive and global environment; contribute to the sustainability and prosperity of the Canadian accounting profession; govern the accounting profession in an effective and efficient manner.

In its Green Paper on Audit Policy,²² the European Commission proposed a European passport for auditors which will allow those registered in one member State of the European Union to be able to provide audit services in another one without a need for further authorization.

C. Challenges

1. Meeting the need for qualified human resources

As previously mentioned, in the last few years there has been a proliferation of international standards and codes related to corporate reporting and an increasing trend towards their adoption, as well as the emergence of new institutions at the national, regional and international levels. However, their benefits are not attained until these new requirements are properly applied and the institutions are efficiently managed. Accordingly, highly qualified human resources are a key component towards a successful implementation of international standards and codes. The efficient application of international standards requires a high level of human capacity that can be developed through education, training and experience.²³ However, in many countries these elements are of low quality and lack alignment with international best practices. A well-designed action plan for capacity-building requires participation from all sectors including Government, PAOs, academia, standard setters, preparers and users of financial statements. In this sense, coordination among all key stakeholders is crucial.

When determining the human-capacity needs in a country it is important to realize that they will vary depending on the prevailing type of companies (listed, SMEs, microenterprises, and the like) and the kind of standards applicable to each category of companies. For example, a country with a large number of listed companies, following IFRS and ISAs, will need a larger number of accountants, auditors, appraisers and

²⁰ New Zealand Institute of Chartered Accountants (2013), “NZICA and ICAA give CER a boost”, 7 May.

²¹ Canadian Institute of Chartered Accountants (2012), “Canada’s three legacy accounting bodies issue unification framework”, Toronto, 17 January.

²² See <http://www.revizorska-komora.hr/pdf/IFAC-FEE/05-EU-Passport.pdf>.

²³ See http://www.worldbank.org/ifa/LessonsLearned_ROSC_AA.pdf.

actuaries than a country with just few listed companies and a majority of SMEs and microenterprises.

During the ADT pilot tests conducted by UNCTAD ISAR in 2011, countries expressed that not only do they not have enough people trained to apply international requirements, but they also cannot readily identify the exact number of professionals available and have difficulties to determine what would be the required number. For instance, results of the Manpower Group's eighth annual Talent Shortage Survey²⁴ in 2013 have shown that the accounting and finance staff category is for the third year in a row ranked among the top 10 jobs hardest for employers to fill in the United States and worldwide.

The shortage of accountants is worse in developing countries that do not have full capacity to train qualified professional accountants. Some developing countries rely on neighbouring countries or other organizations at the international level to provide training and certification possibilities, such as the Association of Chartered Certified Accountants. Indeed, IFAC in its *PAO Global Development Report* highlights the lack of capacity and shortage of accountants as key problems in African countries.²⁵

The Organization for the Harmonization of Business Law in Africa²⁶ is composed of 17 member States in West and Central Africa. This region continues to have an acute shortage of qualified professional accountants. The Organization's secretariat is undertaking reforms which will start by reviewing the accessibility of professional accountancy training as well as setting up efficient and effective regulatory mechanisms for monitoring certification.²⁷ The West African Economic and Monetary Union Commission²⁸ is working on the accounting syllabus with a view to harmonizing the content with accounting institutes in other regions in the world and ensuring it meets the member countries' requirements.²⁹

An additional complication is that in many developing countries the few professionals who have attained the required qualification to compete at the international level do not have enough incentives to remain in their countries of origin. For instance, in Malaysia the shortage of professional accountants is aggravated due to the low salaries which prompt qualified professionals to emigrate to neighbouring countries such as Singapore³⁰ or Australia³¹ where salaries are more attractive. In fact, in Australia accountants represent the main occupation group for which Malaysian nationals have been granted a permanent visa.

2. Strengthening professional accounting organizations

IFAC plays a key role in working on capacity-building and monitoring the development of PAOs through its PAO Development Committee.³² Currently IFAC has

²⁴ See <http://www.manpowergroup.us/campaigns/talent-shortage-2013/> and also <http://www.forbes.com/sites/jeffthomson/2013/05/30/why-accounting-and-finance-pros-are-so-difficult-to-hire/>.

²⁵ IFAC (2012), *PAO Global Development Report*, available at http://www.ifac.org/sites/default/files/publications/files/GDR%20Report_0.pdf.

²⁶ See <http://www.ohada.com>.

²⁷ See <http://www.worldbank.org/en/news/press-release/2012/06/26/world-bank-provides-us15-million-grant-to-build-business-and-commercial-laws-in-the-ohada-zone>.

²⁸ See www.uemoa.int.

²⁹ See http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/AFR/2012/08/08/5D3D7388AA32D57285257A540037C4BD/1_0/Rendered/PDF/ISR0Disclosabl008201201344420548424.pdf.

³⁰ See <http://www.thejakartaglobe.com/archive/malysias-brain-drain-hinders-its-economic-progress/>.

³¹ See http://www.immi.gov.au/media/statistics/country-profiles/_pdf/malaysia.pdf.

³² See <http://www.ifac.org/about-ifac/professional-accountancy-organization-development-committee>.

173 members and associates in 129 countries.³³ PAOs focus efforts in developing capable and competent accountancy professionals, promoting professional and ethical standards and conducting education and training activities as well as quality review, investigation and discipline of their members.

The PAO Development Committee promotes the execution of mentoring activities by which a developed PAO works directly with one less developed, to transfer knowledge and expertise in the main challenge areas of awareness-building, internal organizational strengthening and the provision of vital professional activities to establish and develop a sound accountancy profession within a country. For example, the Society of Certified Accountants and Auditors of Kosovo signed a twinning agreement with the Dutch Institute for Registered Professional Accountants and Auditors in 2007³⁴ and in 2009 the Society became a full member of IFAC.

IFAC has two statuses for PAOs, full members or associates, depending on their ability to meet the Statements of Membership Obligations (SMOs).³⁵ The SMOs establish obligations to support the adoption and implementation of international standards. One of the activities that IFAC performs is the member body compliance programme, by which annual SMO action plans are developed.

However, in many countries PAOs are not operating at full capacity due to the lack of financial and/or human resources, as well as low sustainability and failure to operate as independent entities.

The *PAO Global Development Report* shows that the PAO development level varies around the world. In small developing countries the sustainability of a professional body becomes an issue due to low membership that cannot support the required costs to run a sound PAO. In addition, in some Latin American countries the existence of an excessive number of professional associations results in the profession being fractured, disorganized and underfunded.³⁶

A big challenge identified by IFAC in Latin American countries is the lack of a regulatory framework that facilitates the development of the accounting profession and PAOs. Membership in many Latin American countries is voluntary because it is not required by law to belong to a PAO to practice as an accountant or auditor. For example, the *PAO Global Development Report* indicates that in Costa Rica the local law prevents the PAO from requiring candidates to pass a professional examination to attain membership.

Regional accountancy bodies can play an essential role in capacity-building. For example, in November 2012, the Pan-African Federation of Accountants (PAFA) organized the conference Strengthening Professional Accountancy Organizations for Results.³⁷ One of the key themes identified for follow-up action was the creation of a regional knowledge centre on corporate financial reporting with the objective of sharing knowledge and learning from other centres, such as the World Bank's Centre for Financial Reporting Reform.³⁸ In Asia, the Confederation of Asian and Pacific

³³ See <http://www.ifac.org/about-ifac/membership>.

³⁴ See <http://www.ifac.org/news-events/2012-02/mentoring-insights-mentor-perspective>.

³⁵ See <http://www.ifac.org/publications-resources/statements-membership-obligations-smos-1-7-revised>.

³⁶ Fortin H, Hirata Barros AC and Cutler K (2010), *Accounting for Growth in Latin America and the Caribbean: Improving Corporate Financial Reporting to Support Regional Economic Development*, The World Bank, Washington DC.

³⁷ See http://www.pafa.org.za/documents/Strengthening_Professional_Accountancy_Organizations_for_results_report.pdf.

³⁸ See <http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/ECAEXT/EXTCENFINREP/REF/0,,menuPK:4152198~pagePK:64168427~piPK:64168435~theSitePK:4152118,00.html>.

Accountants³⁹ and the World Bank are carrying out a programme to improve CPD systems in PAOs in Mongolia, the Philippines and Viet Nam.

3. Improving education and training

In an effort to develop an adequate number of qualified human resources able to properly implement standards, the IAESB has been providing support and guidance through the IESs.⁴⁰

IESs have become the international reference for human capacity requirements of professional accountants and auditors. As mentioned before, IESs 1–6 set requirements to achieve qualification for a professional accountant; IES 8 sets the competence requirements for the audit professional and builds on the qualification requirements for a professional accountant; IES 7 establishes the requirements on CPD. Some of the requirements will change with the revised standards. For instance, in the redrafted IES 1 the entry level requirement has been amended to allow for criteria other than an entry level equivalent to a university degree.⁴¹

The scope of IESs as standards for professional accounting education is restricted to the areas of accountancy education that fall under the responsibility of the accountancy profession. Thus, universities are not compelled to comply with them.

There are several players participating in the education and training of professional accountants. In addition, the path for becoming a professional accountant or auditor differs depending on the system in place in each country. In some countries, the process starts at the university with an accountancy degree and continues with additional requirements related to professional accounting education, years of experience and formal assessment (for example, professional examination). In other countries, degrees in other areas such as business, economics, and the like, can be considered. In other countries the accounting profession is relied on to carry out the education and training activities. Most countries have systems in which universities and PAOs are providers of accountancy education.

Nevertheless, the World Bank Reports on the Observance of Standards and Codes (ROSC) on accounting and auditing⁴² show that many developing countries fall short in terms of the requirements that are considered good practice at the international level for ensuring that accountants and auditors are sufficiently qualified. Additionally, according to IFAC, most countries in Latin America require only a university degree in accounting to practice as an accountant or auditor. In this region there is a need for raising awareness among legislators, ministries of education, universities, the business community and the profession on the importance of developing a professional certification system aligned with the IESs.

The Global Accounting Education 2012 study⁴³ shows that in some emerging and developing countries the quality of education is low, there is a lack of knowledge of international standards, professional ethics are not fully integrated in the education system, and the professional examination is not in line with international best practices.

³⁹ See <http://www.capa.com.my/article.cfm?id=634>.

⁴⁰ See <http://www.ifac.org/publications-resources/handbook-international-education-pronouncements-2010-edition>.

⁴¹ See <http://www.ifac.org/sites/default/files/publications/files/IES%201%20Final%20February%201%202013.pdf>.

⁴² See http://www.worldbank.org/ifa/rosca_aa.html.

⁴³ Karreman GH, *Global Accountancy Education 2012: Dynamics of Global Accountancy Education*, (forthcoming).

In order to provide high-quality education it is necessary to ensure that courses are taught by qualified professors. Several challenges arise when creating and maintaining a high-level education system, including employing and retaining highly qualified academic staff.

The ageing of the general academic population has been identified as a problem in European countries.⁴⁴ Universities in Australia⁴⁵ and the United Kingdom⁴⁶ have highlighted an ageing problem for accounting professors.

In addition, universities in Australia are encountering difficulties in filling vacancies in accounting and finance. The reasons identified include low salary levels, large class sizes, heavy teaching and preparation loads, and limited time and support for research. Furthermore, in developing countries low salaries of academics in accounting contribute to the lack of research and low quality of teaching.

According to the World Bank,⁴⁷ in Latin America the most pressing constraint to better classes in international standards is the lack of qualified professors and literature in the local language. The language barrier deters the possibility of academic staff to attend seminars and events at the international level and impedes cooperation among academic institutions and exchange programmes.

In non-English-speaking developing countries, the lack of English language proficiency among academics and students represents a hurdle in an environment in which the internationalization of the accounting field represents the main trend. For example, the study *Development of Accounting Education and Accreditation in Thailand 2000–2010*⁴⁸ found evidence of an acute shortage of qualified accountants with proficiency in the English language in the country.

Concerning the code of ethics, developing countries do not seem to include a separate subject on ethics in the accounting education programmes,⁴⁹ which hampers the common understanding of professional values around the world. For instance, a recent study in Nigeria⁵⁰ shows that the accounting curriculum has insufficient coverage of courses in ethics. A study in Turkey⁵¹ found that ethics education, in the form of raising various ethical situations in class and discussing alternative solutions, would help students to become aware of ethical problems they may face in professional life. Findings also show that regulators and faculty need to improve educational models and techniques to be effective in ethics education by considering other factors such as family, culture and social environment.

⁴⁴ European Commission and Eurydice (2008), *Higher Education Governance in Europe: Policies, Structures, Funding and Academic Staff*, Eurydice, available at http://eacea.ec.europa.eu/education/eurydice/documents/thematic_reports/091EN.pdf.

⁴⁵ University of South Australia and Institute of Chartered Accountants in Australia (2010), *Accounting education at a cross road in 2010*, eds. Evans E, Burritt R and Guthrie J, Institute of Chartered Accountants in Australia, Sydney, available at http://www.charteredaccountants.com.au/~media/Files/News%20and%20media/Reports%20and%20insights/Accounting_Education_at_a_crossroad_2010%20Publication_Web.ashx.

⁴⁶ Beattie V and Smith SJ (2012), "Today's PhD Students – Is there a future generation of accounting academics or are they a dying breed? A UK Perspective." Institute of Chartered Accountants of Scotland, available at <http://icas.org.uk/smith-beattie/>.

⁴⁷ Fortin H, Hirata Barros AC and Cutler K (2010), *Latin America and the Caribbean: Improving Corporate Financial Reporting to Support Regional Economic Development*, The World Bank, Washington DC.

⁴⁸ See http://www.afaanz.org/openconf/2012/modules/request.php?module=oc_program&action=view.php&id=124.

⁴⁹ Karreman GH (2007), *Global Accountancy Education 2007: Trends in Global Accounting Education*, eds. Ahern Jr JT, Kuijl JG and Marrian IFY, Royal NIVRA, Amsterdam.

⁵⁰ Okafor RG (2012), Accounting education in Nigerian universities: Challenges and prospects, *Journal of Economics and Sustainable Development*, 3(14):205–212.

⁵¹ Karaibrahimoglu YZ, Erdener E and Var T (2009), Ethical behaviour in accounting: Some evidence from Turkey, *African Journal of Business Management*, 3(10):540–547.

Regardless of the education system used, there are global concerns related to the quantity and quality of new entrants to the profession,⁵² weakness in skills,⁵³ professional scepticism and failure to keep up with advances in technology and the growing complexity of global business. The summary report of findings of audit inspections published by the International Forum of Independent Audit Regulators (IFIAR)⁵⁴ highlighted as an issue the lack of professional scepticism by auditors when planning and conducting an audit.

In addition, international standards are based on principles, therefore when exercising their functions professional accountants and auditors need to make use of their professional judgment to adequately apply such standards to particular situations.

The United States Pathways Commission⁵⁵ on Accounting Higher Education, created by the American Accounting Association and the American Institute of Certified Public Accountants, recognizes that the change towards more principle-based standards requires more judgment, which may lead to a wider variability in decisions. Therefore, responsible judgment becomes even more important, as well as ethical behaviour consistent with the accounting profession's responsibilities.

The pace of change in the business environment and financial information creates huge competitive pressure and requires accountants to be lifelong learners. As discussed above, the Sarbanes–Oxley Act has had global implications. This is also reflected in the area of education and training of accountants. For example, the École des Hautes Études Commerciales de Paris covers the Sarbanes–Oxley legislation in its mandatory master of business administration financial accounting course.⁵⁶ In Australia,⁵⁷ the knowledge, skills and values considered essential for being a chartered accountant include: being informed of the latest international, disciplinary and business knowledge; being capable of solving problems in an innovative manner; being knowledgeable on information technology systems; being a team worker; possessing an ethical and professional behaviour.

Initiatives to improve education are being carried out at the national level. For instance, the United States Pathways Commission on Accounting Higher Education issued a report⁵⁸ with seven recommendations and actions for educational pathways to engage and retain the strongest possible community of students, academics, practitioners and other knowledgeable leaders in the practice and study of accounting. Another example is given by the International Association for Accounting Education and Research⁵⁹ which facilitates three major research programmes to inform IASB, IAESB, and IAASB. This Association also supports research opportunities for early-stage accounting researchers.

⁵² University of South Australia and Institute of Chartered Accountants in Australia (2012), *Emerging pathways for the next generation of accountants*, eds. Evans E, Burritt R and Guthrie J, Institute of Chartered Accountants in Australia, Sydney.

⁵³ According to IES 3 (professional skills and general education), the skills professional accountants require are grouped under five main headings: (a) intellectual skills, (b) technical and functional skills, (c) personal skills, (d) interpersonal and communication skills and (e) organizational and business management skills.

⁵⁴ International Forum of Independent Audit Regulators (2012), "2012 Summary Report of the Inspections Findings", 18 December, available at <https://www.ifiar.org/Reports.aspx>.

⁵⁵ The Pathways Commission (2012), "The Pathways Commission: Charting a National Strategy for the Next Generation of Accountants", American Accounting Association and American Institute of Certified Public Accountants, available at http://commons.aahq.org/files/0b14318188/Pathways_Commission_Final_Report_Complete.pdf.

⁵⁶ *Financial Times* (2012), "Accountancy: It is almost like a physical science", 18 June, available at <http://www.ft.com/intl/cms/s/2/2676dd3a-aa59-11e1-899d-00144feabdc0.html#axzz2cmeDQmos>.

⁵⁷ Idem footnote 58.

⁵⁸ Idem footnote 62.

⁵⁹ See http://www.iaaer.org/research_grants/index.htm.

In many countries the accounting curriculum tends to be of uneven quality and not in line with some of the important developments in the field and international demands. For example, the World Bank 2010 ROSC: Kenya⁶⁰ highlights that accounting and auditing curricula need to be further harmonized among universities and do not incorporate all international education standards. The ISAR accounting model curriculum⁶¹ and IESs provide good guidelines in developing and improving local requirements. The World Bank⁶² used the accounting model curriculum to identify gaps in some Latin American countries.

In this regard, national coordination is essential. Many countries, as shown in the ISAR ADT pilot tests,⁶³ have universities with inconsistent accountancy curricula. As a natural consequence of not achieving harmonization at the national level, at the international level there is a high diversity of curricula.

Some countries have a national association of faculties of accounting with the objective of coordinating educational and curricular issues. However, there is still a lot of work to do in this area to attain harmonization. For example, in Mexico the National Association of Faculties and Schools of Accountancy and Administration⁶⁴ groups institutions that offer undergraduate and postgraduate programmes in accountancy to develop joint education curriculums. It also promotes training and updating of professors. In the United Kingdom the British Accounting and Finance Association⁶⁵ promotes by means of conferences, discussion groups, and the like, increased exchange among teachers, accounting practitioners and others to advance the knowledge and understanding of education and research in accounting and finance. In the United States the American Accounting Association⁶⁶ promotes worldwide excellence in accounting education, research and practice.

Regional and international cooperation can play a critical role in facilitating capacity-building activities and the sharing of knowledge. An example of regional cooperation is that between the South African Institute of Chartered Accountants (SAICA) and the Institutes of Chartered Accountants in Namibia, Swaziland and Zimbabwe, where most of the professional accounting examination is common in content, except for the tax and any law aspects, which are tailor-made to reflect countries' positions. An example of international cooperation is the adoption of the CICA competency framework by SAICA in 2008 as a base for a South African competency framework.⁶⁷ SAICA was thus able to take advantage of the extensive research that CICA has done in this regard.

In addition, a common difficulty encountered by developing countries is the lack of coordination between the ministries of education and the PAOs, which creates discrepancies in the requirements that need to be satisfied for certification and the subjects taught at the university level. For example, the 2011 ROSC: Zimbabwe⁶⁸ states that there is no coordination of university education programmes with professional qualifications and regulation which creates a substantial gap between university accounting graduates and required skills to serve in the corporate sector. In a conference organized by the Vietnam Association of Certified Public Accountants and

⁶⁰ See http://www.worldbank.org/ifa/rosc_aa_kenya2010.pdf.

⁶¹ See http://unctad.org/en/Docs/c2isar21_en.pdf.

⁶² *Idem* footnote 53.

⁶³ See http://unctad.org/en/Docs/ciiisard59_en.pdf.

⁶⁴ See <http://www.anfeca.unam.mx/inicio.php>.

⁶⁵ See <http://bafa.group.shef.ac.uk/index.html>.

⁶⁶ See <http://aaahq.org/about.cfm>.

⁶⁷ See <http://www.accountancysa.org.za/documents/ASAJune09pgs1-Cover-13.pdf>.

⁶⁸ See [http://www.worldbank.org/ifa/rosc_aa_zimbabweZimbabwe--ROSC%20A&A%20\(Final-%20February%2015,%202011\).pdf](http://www.worldbank.org/ifa/rosc_aa_zimbabweZimbabwe--ROSC%20A&A%20(Final-%20February%2015,%202011).pdf).

the Confederation of Asian and Pacific Accountants on the vital role of PAOs in Viet Nam⁶⁹ it was discussed that regulators have not paid adequate attention to professional accounting and auditing education. There has been no collaboration between the Ministry of Finance and the Ministry of Education and Training regarding training accountants and auditors at higher education level and postgraduate level.

The challenge for governments is to ensure quality and consistency in education generally. There exist general requirements applicable to all universities within a country, such as the Bologna requirements,⁷⁰ and there is also accreditation of some universities; for example, in the United States 168 universities have an accreditation in business and accounting with the Association to Advance Collegiate Schools of Business.⁷¹ The Higher Education Governance in Europe report from 2008 indicates that quality assurance in higher education has been the subject of national reforms and initiatives over the last 10 years in many European countries as part of the Bologna process. The report also shows that in most European countries individual evaluation of academic staff is an integral part of internal quality assurance procedures.

So far this paper has focused its attention on the certification and quality assurance of accountancy professionals. However, monitoring, oversight and discipline mechanisms also require competent professionals to conduct these activities. In this regard, regulators play an essential role in ensuring high-quality reporting. For instance, in Belgium the Financial Services Market Authority carries out training for new services and includes examination and experience requirements as part of the recruitment process of new staff members.⁷²

Other participants in the reporting chain such as actuaries and appraisers also require keeping up to date. Thus, the existence of training opportunities and CPD courses are necessary to make these other participants aware of developments that affect the accounting and reporting area, as well as regulation concerning ethics and professional behaviour. For example, some societies of actuaries⁷³ have established CPD requirements for their members. In addition, in the case of appraisers some institutes provide continuing education and training.⁷⁴

Concerning professionals in non-financial reporting, training and certification programmes are becoming available, especially on topics such as corporate governance. For example, in the United Kingdom the Institute of Directors⁷⁵ has developed a professional qualification for directors, and to maintain the certification members have to fulfil CPD requirements. Members are also required to provide on an annual basis a signed declaration to confirm compliance with the code of conduct in the context of CPD. The Egyptian Institute of Directors⁷⁶ delivers a wide variety of professional certificate programmes and courses in corporate governance targeted at board members and senior managers. Other efforts in this area include the corporate social responsibility retreat⁷⁷ organized by UNCTAD with a view to facilitating peer-to-peer learning for corporate social responsibility managers.

⁶⁹ See http://www.capa.com.my/images/capa/VACPA-CAPA_PAOdev_ConfBook_Aug2012_FINAL.pdf.

⁷⁰ See <http://www.ond.vlaanderen.be/hogeronderwijs/bologna/>.

⁷¹ See <http://www.aacsb.edu/accreditation/>.

⁷² See <http://www.fsma.be/en/Doormat/Publications/Annual%20reports.aspx>.

⁷³ See <http://www.soa.org/Professional-Development/Cpd-Requirement/default.aspx>.

⁷⁴ See <http://www.appraisalinstitute.org/airesources/join.aspx>.

⁷⁵ See <http://www.iod.com/home/training-and-development/chartered-director/default.aspx>.

⁷⁶ See <http://www.eiod.org/TrainingDevelopment.aspx>.

⁷⁷ See <http://www.globalcsrretreat.org/>.

4. Promoting continuing professional development

The rapid and continuous changes in the international standards require professionals to continuously update their knowledge. Therefore, CPD needs to be of high quality and widely available for accountancy professionals and others in the reporting chain. IESs require CPD for maintaining the licence/certification. In Sri Lanka the Institute of Chartered Accountants issued a handbook⁷⁸ with information concerning the obligation to comply with CPD as of 2007.

The content of CPD programmes should consider current international developments and requirements. This poses challenges because PAOs need to continuously update their programmes.

However, the *PAO Global Development Report* emphasizes that CPD is one of the least developed areas and PAOs in developing countries do not have the operating capacity or the legal force to ensure that their members fulfil this requirement. Findings from a study on CPD in Asia⁷⁹ show that there are regional differences in perceptions in terms of the quality, appropriateness and satisfaction with the CPD undertaken. Further challenges were related to the cost of undertaking CPD activities, particularly for respondents in smaller organizations. In emerging economies the proximity was an important consideration when choosing a CPD activity.

In some countries where PAOs have not enough capacity to include all professionals in the CPD programmes, other institutions registered with the PAO carry out these training activities. For example, the Mexican Institute of Public Accountants has a list that indicates which institutions are authorized for CPD activities.⁸⁰ CICA⁸¹ in Canada provides examples of verifiable studies that can be taken into consideration. Also, the National Association of State Boards of Accountancy⁸² in the United States has a national registry to recognize CPD sponsors that provide CPD programmes in accordance with nationally recognized standards.

PAOs also face difficulties in measuring and verifying the CPD undertaken. In this regard, the IAESB sponsored a study in 2008⁸³ that gathered information on different CPD measurement techniques used by PAOs. IAESB expects that more PAOs currently using input-based measurement methods will move towards limited output-based approaches.

5. Improving public-sector accounting and education

In the public sector, challenges are often more difficult than in the private sector. The level of adherence to the SMO 5 that deals with the public sector is low. Only a few PAOs have created committees that issue recommendations and interact with the Government to improve accountability, for example by implementing International Public Sector Accounting Standards (IPSASs).⁸⁴ The public sector remains

⁷⁸ See http://222.165.133.185/NewLogin/Members/CPD_Handbook.pdf.

⁷⁹ de Lange P, Jackling B and Suwardy T (2012), Continuing professional development in the accounting profession: Evidence from the Asia Pacific region, in: Potter B and Birt J, eds., *Proceedings of Accounting and Finance Association of Australia and New Zealand Conference*, Carlton, Australia, 1–3 July, 1–30, available at http://www.afaanz.org/openconf/2012/modules/request.php?module=oc_program&action=view.php&id=293.

⁸⁰ See <http://imcp.org.mx/certificacion/cumplimiento-obligatorio-de-la-nepc>.

⁸¹ See <http://www.cica.ca/about-cica-and-the-profession/protecting-the-public-interest/minimum-cpd-and-insurance-requirements/item62062.aspx>.

⁸² See <http://www.learningmarket.org/page.cfm/Link=10/t=m/goSection=7>.

⁸³ IFAC (2008), “Approaches to continuing professional development (CPD) measurement”, information paper available at <http://www.ifac.org/sites/default/files/publications/files/approaches-to-continuing-pr.pdf>.

⁸⁴ See <http://www.ifac.org/publications-resources/2013-handbook-international-public-sector-accounting-pronouncements>.

in a sense out of scope for the majority of PAOs. This could be the reason for the low rate of adoption of IPSASs worldwide.⁸⁵ According to IFAC only fifteen national Governments, bodies and organizations have adopted or have plans to adopt IPSASs. The application of the ADT in pilot countries also confirms that there is a low rate of adoption.

A key issue is the lack of training. A survey on accounting and reporting by central Governments conducted by PricewaterhouseCoopers Global⁸⁶ identified the lack of trained staff and information technology system requirements as the main challenges to attain transition to accrual accounting.

The shortage of professional accountants is more severe in this sector due to additional deficiencies, such as lower salaries than in the private sector. In South Africa,⁸⁷ the National Treasury created the Chartered Accountants Academy hosted by the Office of the Accountant General, with the objective of making the public service an attractive option for young professionals. The National Treasury aims at developing and retaining those who qualify in the public sector and expanding the programme to other public institutions. One major challenge the country is currently facing is the negative perception that young professionals have of the public sector.

D. Conclusions

To develop competent and well trained human resources it is necessary to strengthen and harmonize the education system and to incorporate international requirements, particularly in developing countries. The quality of professional accounting education needs to be improved and for this purpose the IESs and UNCTAD ISAR model curriculum represent good references. Additionally, sound systems of certification, CPD, quality assurance, discipline and sanctions are required to ensure proper implementation of standards. The language barrier in non-English-speaking developing countries needs to be addressed. Other participants in the reporting chain, such as regulators, appraisers, actuaries, corporate social responsibility managers, and the like, also need to undertake training activities. The public sector requires more training and involvement of PAOs. Finally, regional collaboration is key to overcoming the challenges that countries are facing. By working together on a regional basis, countries could benefit from economies of scale.

⁸⁵ See <https://www.ifac.org/sites/default/files/uploads/IPSASB/IPSASB%20April%202013.pdf>.

⁸⁶ PricewaterhouseCooper (2013), "Towards a new era in government accounting and reporting", April, available at http://www.pwc.com/im/en/publications/assets/pwc_global_survey_on_accounting_and_reporting_by_central_governments.pdf.

⁸⁷ See <http://www.accountancysa.org.za/resources/ShowItemArticle.asp?ArticleId=2504&Issue=1119>.

Chapter II. Overview of the Country Case Studies on Human Capacity Development in Accounting and Corporate Reporting

A. Overview

As discussed in chapter I, member States of UNCTAD are exerting sustained efforts to achieve high-quality corporate reporting. In this respect, human capacity development has emerged as a critical area. In order to gain a better understanding of the human capacity development needs in the area of accounting and corporate reporting, the UNCTAD secretariat conducted country case studies of Chile, Denmark, Malaysia, the United Republic of Tanzania and the Russian Federation. These case studies are presented in this volume from chapter III onwards. These countries were selected from different regions of the world with a view to highlighting some regional factors that impact human capacity development in the areas of accounting and corporate reporting. Furthermore, the case study countries illustrate different legal and regulatory traditions. While Chile, Denmark and the Russian Federation follow a code law tradition, Malaysia and the United Republic of Tanzania take a common law approach.

There are several indications that the five countries have been making progress towards achieving high quality corporate reporting. All five countries have taken measures to implement globally recognized accounting and reporting codes and standards. All countries require listed entities in their respective jurisdictions to prepare their consolidated financial statements in accordance with IFRSs. With respect to audit standards, Chile is converging its standards with globally recognized standards. In Denmark and Malaysia, ISAs issued by the IAASB are the national standards. In the United Republic of Tanzania ISAs are adopted after review by the Technical Committee of the Tanzanian National Board of Accounts and Auditors. In the Russian Federation legislation is in process to issue Federal Auditing Standards based on ISAs.

The case-study countries also indicate that they are committed to improving financial reporting in the public sector. For example, Chile, Denmark and Malaysia will be either implementing IPSASs issued by the International Public Sector Accounting Standards Board or will converge their national standards with IPSAS in the coming two years. Each of the case-study countries has at least one PAO that is a member of the IFAC. Their respective PAOs have been participating in the compliance programme of SMOs of the IFAC. However, the level of development of the PAOs varies across countries; and in some of them such as in Chile, the lack of a legal requirement to belong to a PAO hinders the PAOs ability to conduct its activities to full capacity. It also has a damaging effect on the ability of the PAO to ensure that the profession follows international ethical standards and it reduces its authority to conduct investigations and impose sanctions. In other countries where the PAO has legal support or where the Government is in charge of undertaking oversight and quality assurance functions, the procedures are more stringent.

B. National professional education and qualification systems

The general education systems in the respective case study countries are similar, starting with primary education, followed by middle school or lower secondary and concluding with a high school or upper secondary school certificate. The influence of the

Bologna process is evident in the case studies of Denmark and the Russian Federation. The case studies show that entry into professional accounting education requires at least completion of a high-school level of education. This requirement is consistent with International Education Standard 1 – Entry requirements to the programme of professional accounting education – issued by the IAESB which has been effective since 1 January 2005.⁸⁸ All case studies indicate that the respective entry requirements to professional accounting education are not creating unnecessary barriers to accessing the profession. There is a clear trend of a steady flow of candidates. The examination pass rates trends in the case studies also indicate that the entry requirements are optimal.

Among the countries covered by the case studies, there are different acceptable paths to becoming a professional accountant. The paths vary among the case-study countries and also within a country. In some cases, after completing high school, candidates register with a recognized tuition provider and prepare themselves for a series of qualification examinations. This is one of the paths, for example in the case of the United Republic of Tanzania. In other cases candidates first complete a two-year or four-year university education and then apply to sit for a qualification examination. The case studies show that there is no consistency within a country, thus leading to divergence among the case-study countries.

The content of education among the different education institutions is inconsistent. All case studies provide examples of quality control mechanisms - such as accreditation of accounting education providers. However, in most of the case studies there are no follow-up quality control activities after accreditation has been completed. The case studies highlight lack of a uniform professional accounting education curriculum as a critical factor contributing to inconsistency in the content of the education provided. This lack of uniformity is evident at the national level and also in comparison with the international requirements, such as IESs.

The case studies of Chile and the United Republic of Tanzania show that candidates prefer to study at State-owned universities rather than private universities. State-owned universities manage to attract students with very high grades and offer them scholarships towards completing their studies. On the other hand, students with low grades attend private universities paying tuition and fees. Both case studies also indicate that employers prefer to hire graduates from State-owned universities rather than private ones.

The case study of Denmark illustrates a specialized education programme for State-authorized public auditors. The specialized training commences after a candidate completes a bachelor's degree and continues for three to four years. This indicates that among the qualification paths illustrated by the case studies, it takes candidates in Denmark the longest time period to become State-authorized auditors.

C. Regulatory aspects of human capacity-building

As would be expected, most of the cases studies clearly indicate that accountancy is a regulated profession, particularly in relation to provision of audit services. In common-

⁸⁸ The IES 1 requirement states that "For an individual seeking to begin a programme of professional accounting education leading to membership of an IFAC member body, the entry requirement should be at least equivalent to that for admission into a recognized university degree programme or its equivalent."

law-oriented countries like Malaysia and the United Republic of Tanzania, significant regulatory authority is delegated to PAOs. On the other hand, in code-law-oriented countries such as Chile, Denmark and the Russian Federation most of the regulatory authority remains within governmental agencies - such as Ministry of Finance or securities and exchange commissions. In some cases, the extent of regulation is limited in scope, for example, in Chile regulation applies only to auditors and accountancy firms that provide services to listed companies. Some of the regulatory instruments illustrated by the case studies relate to company acts and accountancy acts dating back to the 1960s – for example in Malaysia and the United Republic of Tanzania. In Denmark, we see an illustration of the effects of the eighth European Directive. Another notable code-law-oriented regulatory development in Denmark is the legislation of 2008 reforming the Danish Audit Act. Under this Act CPD became legally mandatory for auditors.

As noted above the accountancy profession in all of the five countries is regulated. However, as mentioned before in the case of Chile only the professionals working within accounting firms authorized to conduct audits in listed companies are subject to disciplinary actions by the superintendencies. Although the professional accountancy organization in Chile has a disciplinary committee its actions are applicable only to its members and its power for sanctioning is limited. All of the five countries in the case study have outlined elaborate provisions that specify rules and regulations to which professionals must abide by. In the United Republic of Tanzania and Malaysia, the PAOs have in addition promulgated by-laws which regulate the conduct of accountants in the provision of services. In both countries, the PAOs have outlined a code of ethics which must be adhered to by their members. For both PAOs, the code of ethics is strongly linked to the code of ethics issued by the International Ethics Standards Board for Accountants.

In Denmark, the regulation of the audit profession has increased substantially with the most recent legislation being the Audit Act of 2008. Auditors in Denmark are subjected to the legal obligations under the Act as well as the auditing framework directives pursued by the European Union Parliament. In the Russian Federation, the Ministry of Finance plays an active role in monitoring the accounting and auditing professions.

Certification for accountants and auditors is most notable in Denmark where a public register is maintained for all State-authorized auditors. Furthermore, in the Russian Federation the five self-regulatory organizations (SROs) also carry out certification programmes for accountants and auditors. However, the certification programmes have not yet been harmonized among the five SROs. In both the United Republic of Tanzania and Malaysia, certification programmes are carried out by the respective PAOs whereas in Chile there is no mandatory requirement for the certification of accountants, which may lead to inconsistencies within the profession.

CPD features prominently in all the case studies. While Denmark, Malaysia, the Russian Federation and the United Republic of Tanzania require compulsory CPD for the members of the accounting/auditing profession, Chile has no such mandatory requirement for accountants in general although auditors in the public sector are required to undertake CPD to be accredited. It is almost always the case that the PAOs are responsible for administering, specifying content and maintaining a verification system for CPD.

Disciplinary measures against members of the profession who violate their obligations are carried out by the PAOs in the case of Malaysia, the United Republic of Tanzania and Denmark. In addition, in the case of the Russian Federation and Chile both the

State regulatory bodies and the PAOs are responsible for maintaining professional conduct among their members.

D. Institutional arrangements and their implications for human capacity-building

The institutional framework in the accounting/auditing profession is characterized by numerous institutions in all the five countries in this series. These institutions range from the PAOs, the tertiary institutions providing accounting education, the respective government ministries and other associations. In the Russian Federation, there are at least nine different institutions involved in the process of training, certification and continuing professional development of accountants and auditors. Most of them operate under the supervision of the Ministry of Finance. In Chile, in the absence of a strong PAO, the accreditation function for educational institutions is mainly controlled by the committees mandated with approving the general university curricula.

In Denmark, the institutions include governmental regulatory institutions within the country and the regional institutions under the European Union and the European Commission. In the United Republic of Tanzania, the main institution that regulates the profession is also the PAO and in addition several other laws such as the capital markets regulations contain specific provisions that relate to the accounting profession. In Malaysia, the institutions involved in the certification, education and the regulatory processes are represented in a council outlined in the Accountants Act. The representatives from the Government, the PAO, the Universities and recognized bodies participate in this council. Coordination of the functions of these institutions is important in the development of human capacity in the accounting professions. In particular coordination between PAOs and universities is essential in order to ensure that the IESs are taken into consideration in the national requirements for the profession. It is evident from the case studies that there are difficulties with coordination among institutions in the case of the United Republic of Tanzania and Chile. In the Russian Federation these difficulties are minimized through the active role played by the Ministry of Finance, while Denmark reports that there are no coordination difficulties at the country level in this regard.

E. Integration of international requirements into national systems

The case studies provide various indications that efforts towards full convergence with IFRSs have been hampered by insufficient knowledge of international standards and difficulties in adjusting the national system of accounting to adapt international standards. The Russian Federation and the United Republic of Tanzania report that the language barrier poses a challenge in improving the level of corporate reporting to international levels. In Chile the PAO translates the IFRS and ISAs to Spanish to ensure their correct implementation. Ultimately, most of the countries have collaborated with universities to introduce international aspects of accounting into their curricula.

All countries in this study have faced challenges in the implementation of IESs in an attempt to align the accountancy profession with international standards. In Denmark, the greatest challenge has been the implementation of the compulsory three year CPD reporting cycle for State-authorized auditors. For Malaysia, the process of implementation of the IESs has been on-going with the respective Ministry of Higher Education keeping abreast with recent developments in IESs. For Chile the implementation of IESs in the different autonomous universities has been difficult posing challenges for the harmonization of the

accounting education in the country. Similarly to Malaysia, the Tanzanian PAO has addressed the IES component in its syllabus which it recommends universities to follow. The Russian Federation has endeavoured to ensure that IESs are taught at the undergraduate level and are considered part of the continuous development to be applied when one is practicing as an accounting/auditing professional.

Some countries are working on establishing mutual recognition agreements (MRAs) especially with neighbouring countries. This is also promoted in some regions, for instance the European Union is considering the strengthening of MRA for professional accountants in order to facilitate trade in services in the areas of accounting, financial reporting and auditing. However, Denmark does not have any MRA yet. Malaysia has two MRAs in place: one with Ikatan Akuntan Indonesia and another one with CPA Australia. In the case of the United Republic of Tanzania, in 2010, it removed limitations on the provision of accounting services across borders in all modes of supply with Kenya and Rwanda. On the other hand, Chile and the Russian Federation do not have MRAs.

Most countries are active in regional forums with the Russian Federation participating in Commonwealth of Independent States, Malaysia is an active member in the Association of South East Asian Nations (ASEAN) Federation of Accountants whereas the United Republic of Tanzania and Denmark are active within their respective regional economic communities which enable collaboration with the view to improve human capacity within the profession and mutual recognition of qualifications.

The case studies provide evidence that among the participants in the corporate reporting supply chain, auditors are the most scrutinized from a regulatory perspective. Other participants have fewer requirements to exercise their profession and in particular the corporate social responsibility (CSR) area is quite new and countries are only starting to include regulation or listing requirements in this respect. All countries recognize the need for specialized training for other stakeholders such as directors and regulators as a means of improving the level of corporate reporting. Chile and the Russian Federation report that such training has been conducted in the past in conjunction with universities, audit firms and the PAOs. Malaysia has embarked on an elaborate corporate governance scheme requiring stronger disclosure rules and changes in the composition of the board of directors. In the United Republic of Tanzania, the PAO has recognized the need for equipping the directors of regulatory bodies with the necessary accounting skills to enable them carry out their duties. Denmark has outlined in its legislation that listed companies should have at least one member of the audit committee knowledgeable in accounting and auditing matters.

F. Conclusion and outlook

In conclusion, the study of the human capacity development needs in the five countries is a snap shot of the achievements and challenges in the initial and continuous professional development of accountants and auditors and others in the corporate reporting supply chain. The case studies underpin the importance for professional accountants to be conversant with international developments and to possess the relevant skills and competencies in the dynamic profession to ensure high-quality corporate reporting. All countries recognize the rapidly changing nature of international requirements and therefore the need for constant training of human resources.

All countries have outlined areas for further development that are specific to their prevailing conditions. Particular reference is made to the integration of international accounting standards (IFRSs and IPSAS) in national accounting education systems, the certification of accountants and auditors, incorporation of ethics into CPD courses and the harmonization of curricula, among others.

A common theme in the lessons learnt for the countries is that coordination among the various stakeholders is vital in building human capacity in the accounting profession. Moreover, the importance of the Government in stimulating best practices especially in certification and the academic requirements is strongly highlighted. Changes in legislation or the regulatory framework in accounting need to be accompanied by equivalent resources to build competencies in the new requirements.

High-quality financial and non-financial reporting is essential in the public sector as well. The case studies show that there is a need for providing regulatory, institutional and human capacity development support for this sector.

The ADT that UNCTAD–ISAR has developed can facilitate an integrated approach to the capacity-building that is required to meet the demands of high-quality corporate reporting, including in the area of human resources development. Member States are encouraged to consider applying the ADT with a view to developing a comprehensive and systematic approach to building capacity, such as competent human resources and ultimately achieving high-quality corporate reporting.

Chapter III. Case Study of Chile

A. Introduction

Background

This case study⁸⁹ presents the current status of the Chilean accountancy profession, its regulations, the accountancy development framework, explanations on how the country has been adopting international standards, the leadership role played by the superintendencies, and the Chilean PAO (Colegio de Contadores de Chile – CCCH), in facilitating this process. It discusses the educational system put in place by the Ministry of Education (MINEDUC). Various stakeholders in Chile provided essential input for preparing this case study. Further information on these stakeholders is provided at the end of this chapter.

Chile

Chile is a country located in South America; it has a length of 4,300 kilometres (km)⁹⁰ (2,700 miles) a distance equivalent to that from San Francisco to New York, or Edinburgh to Baghdad. At the same time, its width never exceeds 240 km (150 miles), making the country more than eighteen times longer than its widest point. Despite the geographical distribution of Chile, there are enough higher education institutions throughout the country allowing access to a good level of education, which is provided by universities, professional institutes and training centres.

Economic view

Chile has been ranked as a high-income economy by the World Bank.⁹¹ In 2012 the country had a total population of 17.6 million and a gross domestic product (GDP) of US\$268.2 billion. The human development index⁹² ranked Chile as number 40 with an inequality-adjusted human development index of 0.664.

On 7 May 2010, Chile was the first South American and the thirty-first country in the world to join the Organization for Economic Cooperation and Development (OECD).⁹³

The “ease of doing business” index created by the World Bank⁹⁴ lists Chile as thirty-fourth in the world; the index gives a better rank to those countries that encompass better, usually simpler, regulations for businesses and stronger protections of property rights. The privatized National Pension System (AFP) has encouraged domestic investment and contributed to an estimated total domestic savings rate of approximately 21 per cent.

Chile's economy is predominantly services based. Agriculture accounts for 3.19 per cent of GDP and employs 10.6 per cent of the population. Manufacturing and industry account for 36.69 per cent of GDP and employ 23 per cent of the population. Services accounts for 43.37 per cent of the GDP and employ 34.6 per cent of the

⁸⁹ This case study was prepared and edited by the UNCTAD secretariat based on substantive input provided by Mr. Fernando Calcagno (Chile).

⁹⁰ <http://www.geographia.com/chile/>

⁹¹ <http://data.worldbank.org/country/chile>

⁹² <http://hdrstats.undp.org/en/countries/profiles/CHL.html>

⁹³ <http://www.oecd.org/general/listofocedmembercountries-ratificationoftheconventionontheoecd.htm>

⁹⁴ <http://www.doingbusiness.org/rankings>

population. Chile's total exports in 2012 were US\$78.28 billion while its total imports were US\$79.46 billion.

The Santiago Stock Exchange⁹⁵ is the most important in the country. The market capitalization⁹⁶ of listed companies in 2012 was US\$313 billion with a total of 225⁹⁷ domestic listed companies.

Economic and political background over the last 40 years

A quick review of the last 40 years of the Chilean economy shows a notable and sustainable growth. During this period of time, there were polarized political Governments that applied their economic models accordingly. In order to understand the evolution of this long period, the most relevant economic models applied in the country are highlighted below:

- Socialist system used by the Government of President Salvador Allende and his political group Unidad Popular (1970–1973);
- Neoliberal system used by the Government of Augusto Pinochet (1974–1989);
- Social market system used by the different Governments of the coalition of parties; ranging from left wing to Christian democracy (1990–2010).

The current model maintains the spirit and philosophy of the model implemented during the decade of the 1980's, and since 1990 the system has had fine tuning with priorities in areas such as health and education. The national budget allocates to the Ministry of Education⁹⁸ the highest budget approximately 25 per cent.

It is important to mention that Chile was the pioneer in the South American region in implementing a liberal model of economy and the result has been a continuous and sustainable growth for 40 years now. The following chart depicts a summary of the main macro indicators and population.

Table III.1

Economic indicators trend⁹⁹

Macro indicators	1970	1980	2012
GDP (US\$ billions)	9.6	30.0	268.4
Population (millions)	9.6	11.2	17.4
GDP per capita (US\$)	1.002	2.684	15.415

Note: Older statistical information can also be found in www.es.kushnirs.org/macroeconomia/gni/gni_chile.

Central Bank of Chile

The Central Bank of Chile has played an important role in maintaining the macro-economic indicators. The legal and institutional framework of the Bank defines it as an autonomous organization, of constitutional rank, technical in nature, with legal status, with its own capital and indefinite duration, as set forth in Article 1 of its Ley Orgánica Constitucional (or basic constitutional law). Chile's financial and

⁹⁵ <http://www.bolsadesantiago.com/index.aspx>

⁹⁶ http://data.worldbank.org/indicator/CM.MKT.LCAP.CD?order=wbapi_data_value_2012%20wbapi_data_value%20wbapi_data_value-last&sort=desc

⁹⁷ http://data.worldbank.org/indicator/CM.MKT.LDOM.NO?order=wbapi_data_value_2012+wbapi_data_value+wbapi_data_value-last&sort=asc

⁹⁸ Current 2013

⁹⁹ Central Bank of Chile and National Statistics Institute of Chile

macroeconomic institutions rest on four basic pillars, which in turn serve as the foundation for monetary policy. These are Central Bank autonomy; responsible and predictable fiscal policies; a regulatory and supervisory framework that promotes high standards for financial system management and solvency; and trade and financial integration with the rest of the world.

The combination of the above key success factors, plus the Government's discipline in the budget spending have been very important to create the favourable economic environment and providing new business opportunity to its population. The creation of new work opportunities has been a challenge to all professions including accountancy.

B. National education system

Background

A government policy to implement various strategies to enhance an individual's capacity to succeed in the labour market and investment in an individual's human capital is one of the most important channels to achieve the goal of improving the country's economy. Research shows¹⁰⁰ that workers with higher education have higher earnings and that this wage differential has been increasing over time.

The same situation is experienced with higher education in accounting, that is, tertiary degree programmes offered at universities or non-university institutions. A strong education system is the foundation for a well-trained accounting and auditing profession.

The MINEDUC is responsible for promoting the development of education at all levels, assuring all people have access to basic education, stimulating scientific and technological research and artistic creation, and protecting and enhancing cultural heritage. According to the constitution, primary and secondary schools are mandatory for all Chileans.

The education system can be grouped into three categories. Primary education consists of eight years and secondary education consists of four. This cycle is divided between scientific-humanist (regular), technical-professional (vocational) and artistic. The first two years are the same for the three kinds of schooling, while the third and fourth years are differentiated according to the orientation of the school. The tertiary education is taken in various institutions of higher education and research which grant academic degrees in a variety of subjects and provide both undergraduate and postgraduate education.

Before the law (see the next section) of 1980 become effective, the technical-professional schools in commerce included areas such as accounting, sales and secretarial studies. These were called superior commercial institutes. To obtain a degree from such institutions, a candidate would be required to: to invest one additional school year, prepare a graduation thesis and expose it to an examination commission formed by the school's teachers. If approved, the student got the degree of "General Accountant", which allowed him/her to exercise the profession and sign financial statements. In 1981, the technical-professional schools in commerce-related areas changed by the elimination of the additional school year, and graduation thesis. The new degree delivered was entitled "High-School Accounting Technician". Nowadays, the degree is very basic and it can be used as a starting point for those students

¹⁰⁰ As an example please refer to: www.aic.cl/?p=1865 - Estudio de Remuneraciones – AIC 2010

interested in continuing the same profession by attending superior institutes and/or technical training centres (CFTs).

Higher education

In 1980 a Decree Law N°3.541 gave the right to the President of the Republic to restructure the universities. Several decrees followed such as: Decree Law N°1 (universities), Decree Law N°5 (professional institutes) and Decree Law N°24 for CFTs. These decrees changed the higher¹⁰¹ education system in Chile and allowed the creation of private universities, superior technical institutes and CFTs with autonomy in academic and institutional matters. As a result, the new decrees offered new careers and alternatives to a large portion of the population.

National Education Council (CNED)

The National Education Council (CNED¹⁰²) was created by the Law N°20.370 and consolidated into Decree Law DFL N°2-2009, as an autonomous organization. Its relationship with the President of the Republic takes place through the Ministry of Education. Its mission statement is primarily to promote the quality of education.

To implement its functions in the framework of the Law N°20.129 of November 2006 the National Quality Assurance System (SNAC) was created, for the primary, secondary and tertiary education. Among its duties and responsibilities related to higher education we find the following:

- Evaluate and approve the initial activities of a new entity;
- Instance to plead the Comisión Nacional de Acreditación (CNacA or Commission of National Accreditation) decision regarding the accreditation of an entity;
- To support MINEDUC in shutting down institutions.

New entities of higher education

Anyone in the country can create a new educational entity; however, the new venture initiatives must be addressed to CNED, which evaluates the feasibility of the project in terms of its institutional and academic programme. The CNED will take a reasonable period of time to rule the formal authorization to the new entity.

Once the new entity is approved by the CNED, it enters into the phase called “licensing” to become “autonomous”.

In order to get the aspirational autonomy, the new institutions must be submitted to CNED’s jurisdiction for a period of up to 11 years. During this time the entities are evaluated according to pre-established criteria. Among the parameters to be measured are: the progress of the institutional project, academics' curriculum, profile of the teachers, implementation of the infrastructure committed, and financial resources available to accomplish the project. Peer evaluators realize all this process and issue the periodic and final report.

Later on, the new institution has the voluntary opportunity to be subject to accreditation and supervised by the SNAC.¹⁰³

¹⁰¹ Referred to Universities, Superior Institutes and CFTs, as mentioned in the next lines of this sentence.

¹⁰² www.cned.cl/public/secciones/SeccionEducacionSuperior/instituciones_educacion_superior.aspx

¹⁰³ For further information refer to section D, Institutional framework.

Council of Rectors of Chilean Universities

The Law N°11.575 created the Council of Rectors of Chilean Universities (CRUCH) on 14 August 1954 (article 36, letter C #1). Its initial main objective was to manage the public funds for research and development.

The Law N°20.370 issued in 2009 consolidated the creation of the CRUCH as an autonomous and legal entity, with its own Assets and its relation with the President of the Republic through the Ministry of Education.

CRUCH is formed by 25 entities, divided into state and traditional private universities (table III.2). The old state universities were eight entities, consolidating their branches within the Chilean territory. The traditional private universities are entities that formed part of the old state universities and according to the Decree Law N°1 they became private institutions. The 25 universities have the right to receive financing from the national budget through direct and indirect fiscal funds.

One of the most important duties of the CRUCH is to establish entry requirements for the process of admission to the Chilean universities through the university selection test (PSU). This selection process replaced the academic aptitudes test (PAA) introduced during the year of 1966. The State University of Chile (UdeCH) is the institution responsible for developing the PSU for the admission as well as certification and validation of academic degrees provided by foreign educational entities.

Table III.2
Group of universities under CRUCH¹⁰⁴

N°	Name of Universities	Status
1	Universidad de Chile	State-owned
2	Pontificia Universidad Católica de Chile	Traditional
3	Universidad de Concepción	Traditional
4	Pontificia Universidad Católica de Valparaiso	Traditional
5	Universidad Técnica Federico Santa María	Traditional
6	Universidad de Santiago de Chile	State-owned
7	Universidad Austral de Chile	Traditional
8	Universidad Católica del Norte	Traditional
9	Universidad de Valparaiso	State-owned
10	Universidad de Antofagasta	State-owned
11	Universidad del Bio-Bio	State-owned
12	Universidad La Frontera	State-owned
13	Universidad de Magallanes	State-owned
14	Universidad de Talca	State-owned
15	Universidad de Atacama	State-owned
16	Universidad de Tarapacá	State-owned
17	Universidad Arturo Prat	State-owned
18	Universidad Metropolitana de Ciencias Educ.	State-owned
19	Universidad de Playa Ancha de Ciencias Educ.	State-owned
20	Universidad Tecnológica Metropolitana	State-owned
21	Universidad de los Lagos	State-owned
22	Universidad Católica del Maule	Traditional
23	Universidad Católica de la Santísima Concepción	Traditional
24	Universidad de La Serena	State-owned
25	Universidad Católica de Temuco	Traditional

Universities in the country

The higher education level has 60 universities that bring together 686,000 students. The 25 universities included into the CRUCH represent 41.4 per cent of the teaching provided in 2012. The average time candidates spend at universities in pursuit of degrees required for their professional career is in the range of eight to ten semesters. The degree in auditing or accounting takes eight to nine semesters including a seminar required for attaining graduation. The entire CRUCH's members and a large portion of the private universities offer the public accountant degree.

¹⁰⁴ See www.consejodirectores.cl.

Entry requirements

The design and evaluation of the PSU is done by the University of Chile, while the Ministry of Education manages the system itself. The CRUCH has the responsibility for coordinating and providing the scope of the PSU. In this case the CRUCH includes also eight private universities, becoming 33 in total for this purpose.

All the secondary students must demonstrate their graduation with a certificate provided by high schools, where they successfully completed the mandatory period and met the minimum qualifications.

This system applies to all professions; therefore, to be admitted into the accounting and auditing degree, candidates need to comply with the above requirements. Each student will select the type of educational institution based on the results obtained during the standard admission process (PSU), high school qualifications, and other skills determined by individual entities.

In general terms the state and traditional universities are the preferred target chosen by students with the highest rate of qualification, because once graduated they will have better chances to access more preferred companies and negotiate higher salaries. As a result of the above laws, a new concept of market competition was developed for all institutions of higher education. The old “state universities” are the most requested by the best qualified students. Private educational institutions were opened to accept a wider quantity of students with lower performance in terms of qualification in the admission process test (table III.3).

Table III.3

List of private universities under CRUCH

N°	Name of Universities
1	Universidad Diego Portales
2	Universidad Mayor
3	Universidad Finis Terrae
4	Universidad Andrés Bello
5	Universidad de los Andes
6	Universidad Adolfo Ibañez
7	Universidad del Desarrollo
8	Universidad Alberto Hurtado

Practical experience – general rules

There is no governmental policy regarding practical experience before graduation. Each entity defines the number of hours and type of practice or seminar that must be completed before graduating. This procedure is also applied to the students of accounting and auditing.

Practice alternatives

Higher education entities have total autonomy in defining their academic curriculum and other requirements for graduation. With respect to requirements for practical experience, three alternatives co-exist in higher education:

- Students spend between 500 and 1,000 hours working in an organization. In general terms all professional practices must be certified by a supervisor/manager of the company that provided the opportunity to the student to spend certain number of hours working for that company. The supervisor at work must issue a report regarding the performance, attitude, and other soft skills. The supervisor signs the certificate, puts the corporate stamp on the document, and sends it to the educational entity.
- Seminar equivalent to one semester of study. Several students have a common “teacher – coaching” who guides them through the preparation of a research document that they have to defend at the end of the semester. There is a committee of 3–5 teachers selected by the institution. If the committee approves the research, the student graduates. This is the most used alternative.
- In some specific cases, the students must prove their real experience at work in the same profession. This situation is given when someone is working in the finance area and at the same time studying, therefore, they do not need to meet the requirement of spending 500–1,000 hours as a practitioner. In any case, they will have to be prepared for the final examination to get the degree.

The practice, as defined by the universities, is only focused on the formation of the student to get the degree. This does not fulfil the requirements set out in IES 5, and the IESs in general.

Specialized training for auditors

In practice higher educational entities provide similar academic curriculum,¹⁰⁵ where topics such as accounting and auditing cover the basic subjects of the profession. Therefore, there is no specialization or training in accounting or auditing, and the single degree covers both topics.

External audit firms, especially the largest four, provide intensive ad hoc training to new entrants into their practices. When they hire students, the firms consider the qualifications, the name of the superior educational entity, and the number of semesters spent to be graduated. In some cases, they hire undergraduate students to develop them as trainees. The largest four firms have developed the internal concept of “university in-house” because of continuous development training to upgrade the knowledge and skills of their staff to the latest international standards, new capabilities in information technology, as well as tax matters. Smaller audit firms also provide some form of training when they have financial resources.

The role of CCCH in the education process

As a full member body of IFAC, the CCCH is required to comply with the SMOs and has the obligation of identifying and undertaking actions to fulfil the requirements set out within the obligations. The SMOs provide clear benchmarks to current and potential IFAC member bodies, to assist them in assuring high quality performance by professional accountants. However, in 1981 the Decree Law N°3.621 was introduced in Chile, which eliminated the legal obligation or precondition for professionals to be registered with a professional organization for the exercise and practice of any profession in the country. Since then, professions in Chile have been deregulated and nowadays it is fully voluntary to be an active member of any professional organization, which has weakened the financial position and regulatory

¹⁰⁵ www.uchile.cl/carreras/86759/auditoría

authority of professional organizations. This situation is also applicable to professional accountants and auditors.

The CCCH has formed a permanent Commission for Higher Education (CES) and its core activity is to communicate, support and discuss the SMO 2 (IESs for professional accountants and other announcements issued by the IAESB) within educational institutions and its active members.

SMO 2 – International education standards for professional accountants and other announcements issued by the IAESB

Background

As mentioned above, the MINEDUC does not require specific academic curriculum to be implemented by higher education entities in the country. Thus, implementation of the SMO 2 is not part of its mission.

Members from several universities compose the CES: Católica de Valparaíso, USACH, Arturo Prat, La Serena and the Superior Professional Institute of Accounting. The CES conducts monthly meetings.

Box III.1

Background and action plan – SMO 2

Chile's framework – SMO 2

- No oversight, or control or influence over the universities, professional institutes, technical training centres or technical schools;
- CES will use its best endeavours to coordinate and communicate the IFAC IES to the universities, professional institutes and technical training centres;
- CES will maintain expedient exchanges of information with the regulators such as the Chilean Superintendence of Financial Institutions and Banks (SBIF), the Ministry of Economy and the Ministry of Treasury;
- CES must inform its active members of the IESs and modifications published by IAESB;
- The CCCH has the Institute for Research and Professional Development (INDEP) as its educational arm.

C. Regulatory and standard setting framework

Convergence towards IFRS

The CCCH has been the historical institution of accountancy in Chile because the publication of the Law N°13.011, article N°13, letter G, in 1958, gave its National Council (equivalent to the board of directors of a corporation) the attributions and faculties for pronouncing and enacting professional standards for Chile.

In May 2004, the CCCH signed a letter of agreement with the Inter-American Development Bank (IDB) and the Multilateral Investment Fund (MIF) in reference to

the contract ATN/MT8617-CH,¹⁰⁶ in order to converge with international standards and jointly develop a master plan.

At the end of 2006, the Chilean Superintendency of Securities and Insurance (SVS) decided to require securities issuers on its stock market to comply with IFRS for reporting periods starting on or after 1 January 2009.

Chile was the first large country, in terms of stock exchange in the SAM region, to adopt IFRS in full, and its case offers an interesting example for the time and resources required for implementing IFRS:

- At the end of 2006, the SVS decided to require securities issuers on its stock market to comply with IFRS for reporting periods starting on or after January 1, 2009;
- Companies registered with SVS sent their audited financial statements, which were posted on the SVS website;
- Chile moved to adopt IFRSs for all SVS registrants and entities (regulated by the SBIF) over a three-year period¹⁰⁷ from 2009 to 2011, as follows:
 - For the calendar year of 2009¹⁰⁸ IFRS were required for major listed companies – 2009 financial statements including 2008 comparative information using IFRSs;
 - For the calendar year of 2010, IFRS were required for smaller listed companies, insurance companies, mutual funds, pension funds, stock brokers and dealers, insurance agents, and companies that issue publicly traded debt securities – plus any of the large listed companies that were unable to switch to IFRSs in 2009;
 - During 2010 the SVS permitted insurers to delay the implementation of IFRSs;
 - For the calendar year of 2011, IFRS were required for other entities registered with the SVS (non-issuers who have voluntarily registered).

Convergence with International Standards – audit

Besides the activities detailed above, the CCCH was also committed to lead a Plan for Convergence towards International Standards on Audit, having in mind to close the circle of moving the profession in Chile to the same level of most developed countries.

The professional standards issued in Chile have been prepared based on the American Institute of Certified Public Accountant's (AICPA) Generally Accepted Auditing Standards. The “Clarity Project” of the Auditing Standards Board (ASB) of the AICPA has led to the development of the Normas de Auditoría Generalmente Aceptadas en Chile (NAGA, or Chilean Generally Accepted Auditing Standards) N°63 of 15 March 2012 and its application was effective for calendar 2012.

Both the IAASB and the AICPA are, in fact converging every day to a common standard, but in the meantime, Chile is using AICPA, and in situations where topics aren't covered by the NAGA, the pronouncements of IAASB are used.

¹⁰⁶ IDB – MIF non-reimbursable funds

¹⁰⁷ <http://www.iasplus.com/en/jurisdictions/americas/country100>

¹⁰⁸ A major listed company that feels it is not ready for IFRSs in 2009 may opt, instead, to present Chilean GAAP statements for 2009 (with 2008 comparative data on the same basis), with supplemental 'pro forma' disclosure of expected impact of changing to IFRSs. This latter group would move to IFRSs in 2010.

Small and medium-sized enterprises

According to the Ministry of Economy, Development and Tourism (MEDT)) the criteria¹⁰⁹ used to classify companies in Chile are the following (tables III.4 and III.5):

Table III.4
Annual turnover

Business's classification	Base range of annual turnover (UF)	US\$ – top annual turnover
Micro business	From 1 to 2 400	109 870
Small sized	From 2 401 to 25 000	1 144 490
Medium sized	From 25 001 to 100 000	4 577 950
Large business ¹¹⁰	Above 100 000	Above 4 577 950

Table III.5
Number of employees

Business classification	Number of employees
Micro business	Up to 9
Small sized	From 10 to 49
Medium sized	From 50 to 199
Large business	Above 199

Notes: UF¹¹¹ = 23,164.43 Chilean pesos.

US\$ = 506.00 Chilean pesos.

The (A) classification is the most used.

The SMEs use the Chilean GAAP. In an effort to modernize accounting for SMEs and to inspire the preparation of informative and relevant financial statements, the CCCH published the local Spanish version of the IFRS for SMEs, called EPYM (the local acronym for IFRS for SMEs, to be applied for medium and small enterprises) that is effective for the calendar year of 2013.

Public sector accounting

In accordance with chapter 10 of the Chilean Constitution, the Office of the Controller General of the Chilean Republic Government Accountability Office (CGRCH) is a part of the executive branch of the Chilean Government. It is in charge of the control of the legal aspects, management, pre-audit and post-audit functions of all the activities of the centralized and decentralized civil service, whatever its forms of organization may be, as well as of other powers granted by law. The CGRCH has the sole responsibility, by law to issue and enact the Public Sector Accounting Standards.

Over the years, the CGRCH gained a reputation for insisting on strict conformity with the law, instilling respect in career and elected officials. In 2009 the

¹⁰⁹ www.sofofa.cl/sofofa/index.aspx?channel=4301

¹¹⁰ Just as a reference.

¹¹¹ The UF is an Indexed Unit of Count that change on a daily basis and take the Cost of Living Variance.

CGRCH was ranked fourth in the VI Barometer¹¹² of Access to Public Information, a study reflecting the perception the media has in terms of transparency and cooperation from various important public Agencies in the country.

The Chilean Government has a budgetary accounting, and is currently in the process of converging with IPSAS by 2015. Every year, in April¹¹³, the CGRCH presents its financial statements, based on GAAP for the nation and the execution of budgetary performance.¹¹⁴

Rules applicable to accounting professionals

In terms of International Professional Standards, the country applies standards issued by the CCCH. The initial establishment of the profession in Chile goes back to the National Register of Accountants (RNC) that gathered the profession in 1932, by the Law N°5.102. In 1958, a new institution was created through Law N°13.011, the CCCH, which in many respects was a continuation of the earlier RNC. According to the statutes established by the CCCH, only active members are obliged to comply with professional standards issued by the institution and such individuals may only be professional accountants from a university or graduates of a professional institute (from high school/higher education), recognized by the Chilean State.

The CCCH has the responsibility of promoting the profession and its international professional standards and acting as a direct link with IFAC as a member body, and its functions, among others are:

- Attributions given by Law N°13.011, article N°13, letter G;
- Translation¹¹⁵ of the IFRS pronounced by the IASB for large corporations and SMEs versions, which are covered in the contract signed with the International Accounting Standards Committee (IASC) Foundation.
- Translation of professional standards on quality controls, audit, attest and review and compilation.
- To have a permanent technical group for several Committees, especially those related to international standards.

¹¹² www.comunicaciónyletras.udp.cl (see details of VI Barometer).

¹¹³ www.contraloria.cl (see left lower corner – Accounting Section).

¹¹⁴ <http://www.ifac.org/sites/default/files/publications/files/Statements-of-Membership-Obligations-1-7-Revised.pdf>.

¹¹⁵ The reason of translating the original version of IFRS, is based on law N°13.011, where, the CCCH is the only entity authorized to issue accounting pronouncements and secondly, because in the past the time elapsed between English version versus the Spanish one took a long time to be ready, and lastly, the translation into Spanish includes Chilean idiomatic expressions, making easier the understanding and discussions.

Box III.2

Brief information on the contract IASCF/CCCH*Scope of the contract between IASCF and CCCH*

The CCCH signed the contract in 8 August 2009. This document acknowledged that Chile was in the process of adopting IFRS.

- Translation into Spanish for the Chilean territory will be locally performed. The initial period considered was from 1 January 2009 to 1 January 2012, until the completion of FULL adoption of the new standard (the transition period). Currently, the CCCH continues translating pronouncements and/or new standards into Spanish to speed it up the implementation in the country, under the same agreement.
- Chilean Financial Reporting Standards were not IFRS, and the IASC Foundation recognized that Chilean financial reporting was going to help enable and prepare the adopting jurisdiction for IFRS.
- The Parties recognized that it was in the public interest, and facilitating the comparability of financial statements, to ensure that there is as single, consistent, high quality translation of IFRS available in each language.

Chilean Superintendence of Securities and Insurance (SVS)¹¹⁶

The SVS is an autonomous corporate body affiliated with the Chilean Government through the Ministry of Finance. It is responsible for the supervision of all activities and entities involved in Chilean securities and insurance markets. The SVS enforces compliance with all laws, regulations, by-laws, and other provisions governing the operation of these markets.

In carrying out its responsibilities, the SVS operates in the following capacities:

- Enforcement: Monitoring of compliance with legal, regulatory, and administrative rulings;
- Regulatory Duties: Establishing the regulatory framework for securities and insurance markets through the issuance of rules and regulations;
- Sanctions: Application of sanctions for breaches and infringement of regulations;
- Market development and promotion: Promotion of various initiatives for market development through the creation of new products and instruments.

The charter of the SVS (Decree Law N°3.538 of 1980) provides that its head shall be the Superintendent of Securities and Insurance (the chair), who is its judicial and out-of-court legal representative, being appointed by the President of the Republic.

¹¹⁶ The most important and visible State Regulator in Accounting and Audit Matters in the country

Box III.3

Brief organization chart – SVS

The SVS is organized in three functional areas:

Securities area is in charge of supervising entities related to the securities market, such as, listed corporations, issuers of securities for public offer (stocks, bonds, commercial papers, investment fund shares), stock exchanges, clearinghouses, security brokers, external auditors, mutual fund managers and their funds, investment fund managers and their funds, foreign capital investment funds and their funds, risk-rating agencies, securitization companies, mortgage mutual fund managers and their funds, centralized security deposits, among others.

Insurance area is in charge of supervising entities involved in insurance market, such as, insurance companies, reinsurance companies, insurance brokers, insurance adjusters, insurance agents, and endorsable mortgage mutual fund administrating agents. It is also in charge of the registry of foreign reinsurers, and both national and foreign reinsurance brokers.

Central area, in turn, consists of providing administrative support required by the institution to properly perform its tasks.

The securities area has two specific activities related to the accountancy profession, and they are focused on; accounting matters (IFRS) and regulation of audit firms.

The Financial Control Division of Securities is in charge of the oversight of the financial information that public offering securities issuers (registered in the Registry of Securities) have to disclose to the investors and the public in general, alongside with the information provided by some entities that, according to different laws or regulations, have to be registered in the Special Registry of Informant Entities. The following are among the main functions carried out by the Division:

- Inscription, modification and cancellation in the Registry of Securities and in the Special Registry of Informant Entities of: issuers, corporations, informant entities, issuers of public offering securities (shares, bonds, negotiable instruments);
- Supervision of the financial information and investor's rights;
- Participation in the legal and rules development process regarding matters related to issuers information and the accountant field;
- Participation in the technological development process: as support to the supervision and the disclosure of information to the market;
- Resolution of queries in the supervision field;
- Preparation of reports for diffusion;
- Preparation of reports for other services and units.

This functional area was created along with the institution. The organization consists of 33 members in charge of the supervision and control of the quarterly reporting of the supervised securities corporations, and to perform their activities they use full IFRS for the present companies under its jurisdiction. Special regulation, only

applicable to register companies is issued directly by the SVS, which is not necessarily covered in the IFRS. As an example, the SVS issued a specific regulation (Norm N°8984, from March 2011) regarding the interpretation and use of the IAS 27, this regulation was applied by the company “Oro Blanco”.¹¹⁷

The control of audit firms deals with the REAE, under the jurisdiction of the SVS. This functional area was created in July 2012 and consists of seven members including the head of the area. It is in charge of the supervision and control of the activities and role of the external audit firms under its jurisdiction as mentioned by Chapter XXVIII of the Law N°18.045 related to market securities.

The numbers of Firms in the REAE is 72¹¹⁸ at the end of September 2013, and the “big four” (PWC, Deloitte, E&Y and KPMG)) cover about 90–94 per cent of the market. The Chilean State regulatory bodies control the external audit firms through compliance with several standardized requirements, which allow the firms to perform their role of external auditors for the large and medium-sized corporations registered and listed corporations and/or registered non-listed companies in its records. The last ones have the obligations of hiring external audit firms according to Law N°18.045. Similar situation applies to multinational companies required to have an external audit according to their head office located outside of the country.

The SVS’s requirement was established in January 2010, and it is defined in the Norm N°275, which establishes all the requirements¹¹⁹ related to Register and functioning of firms and partner responsibilities (sections I, II and III). The section V deals with continuing operations of the Firms. All firms willing to be part of the REAE must fill in long and detailed forms and provide information of the specialists in IFRS and audit for different industries, and time elapsed in the country. At least 50 per cent of the share of the firm must belong to partners.

The professionals identified as partners of the audit firms can sign the external auditors opinion, and these must be graduated professional accountants.

The SVS follows the IFRS (Chilean translation and/or Spanish version issued by the IASB, and for audit matters, the SVS follows the local NAGAS (translation of AICPA GAAS), and where no subject covered, they apply the IAASB.

Table III.6
Actives corporates

Statistical information	Number of companies
Private corporates	370
State-own companies	7
Total consolidated revenues	US\$294 billions

There are a total of 238 other entities registered into this superintendence, which are formed by a wide scope of companies such as mutual fund institutions,

¹¹⁷<http://www.svs.cl/sitio/mercados/entidad.php?auth=&send=&mercado=V&rut=96532830&grupo=&tipoentidad=RVE MI&row=AAAUvUABfAAAkXAAr&vig=VI&control=svs&pestanía=3> (enter Oro Blanco in the Enter Entity; select the calendar year 2012; estados financieros and see the note 2.12)

¹¹⁸ Only audit firms can be registered into this insitutions. Not individuals is permitted

¹¹⁹ www.svs.cl (look for “Legislation & Regulations TAB, English version)

brokers, equity securities agents, insurance companies, and the like, and their total revenues is US\$27 billion, already included in the above chart.

Internal revenue service (SII)

The Servicio de Impuestos Internos (SII or Chilean Internal Revenue Service) is a government agency that depends directly on the Ministry of Finance (MHac).

The SII is responsible for implementing and enforcing tax policies and providing assistance to taxpayers, including, monthly tax payments and the annual tax returns for everybody in the country, including individuals, private corporations (public or closed), universities and higher education institutions, and State-owned companies under the SVS jurisdiction. The MHac has 18 regional taxation offices plus the large taxpayer's office, and strongly promotes the use of web-based tax filing.

The tax law did not have any change that affected the annual tax returns as a result of the new IFRSs. Taxpayers must prepare the necessary adjustments to strictly follow the procedure to determine the taxable income.

Continuing professional development

There is no mandatory CPD for accounting professionals to keep the degree to exercise the profession. Each individual must decide by himself or herself, the type of development wanted; however, professionals are obliged to be continuously studying to remain competitive. The open market in the economy, the continued growth of the economy, new entrant businesses, as well as present companies look for the best professional available, regardless of their nationality, therefore in an indirect way, accountant professionals must undertake training on a permanent basis in matters such as international standards and local legislations.

In the case of public sector, the CGRCH has internally established a CPD to its employees in order to be accredited in accounting in two levels and each employee has the responsibility of validating himself the levels approved. The certification is performed inside the institution, under strict procedures and all the employees with degree in accounting–audit and experience background in public accounting with five or more years are in conditions to apply these examinations.

Enforcement, discipline and sanctions¹²⁰

Only those companies registered with the superintendencies (SVS, SBIF and SP) must adhere to the regulations of the respective superintendence. The rest of companies and professionals do not have any particular obligation, and must meet the client's needs and requirements, among others, the SII, where the monthly tax payments and the annual tax returns must be consistent with the GAAP.

As mentioned above, any person can sign the monthly tax payments and tax returns, besides the legal representative of the company and/or delegate attorney of power to someone. Corporations must follow the Law N°18.046, where mandatory obligations are described.

¹²⁰ See the SVS web site details of Companies/Audit firms/Individuals

Discipline and sanctions

The state regulators (superintendencies), and the accounting PAO (CCCH) maintain responsibility for investigation and discipline of their members for misconduct or breaches of professional standards. However, the CCCH can only apply penalties to its active members.

The superintendencies have the power to strictly apply penalties to Corporations and/or Individuals under their jurisdiction, besides the action that ordinary justice (courts) could take on it. The largest portion of sanctions and resolutions applied by the SVS is monetary.¹²¹

Companies under the SVS's jurisdiction must sign a certificate stating that the board of directors is issuing the required information in compliance with the current instructions; therefore, only in rare cases an accountant is penalized. If misconduct for the accountancy professional is proved, he/she will be notified to pay a fine, but does not lose the right to exercise the profession.

Codes of Ethics and investigation and discipline – SMO 4 and SMO 6

The CCCH, in its by-laws (Articles 5, 5additional, 6, 7 and 8) obliges its active members to comply with the professional standards contained in the Code of Ethics, and in its chapters VIII and IX contemplate the creation of disciplinary tribunals and measures for its active members.

The institution has a disciplinary tribunal and measures¹²² for the investigation, and decisions regarding misconduct detected by the own institution and/or complaints received from third parties. The ordinary justice plays an important role through courts, and they have the power to rule resolutions according to the process.

Box III.4**Disciplinary tribunal sanctions***Chile's disciplinary tribunal*

It is established in the Chapter VIII - article 45 of CCCH in exercising the powers conferred to the institution's courts, it may sanction the offending partner with any of the following disciplinary measures:

- a) Verbal warning;
- b) Censorship private writing or advertising;
- c) A fine of not less than 1 UTM (=US\$78) effect on the date of the application of the fine for the first time, not exceeding 10 UTM (=US\$780) for unethical conduct in professional activities;
- d) Suspension of membership rights up to a period of six months;
- e) Expulsion and his subsequent removal from the register of the college, as estimated maximum penalty for serious offenses.

¹²¹ www.svs.cl (see lower right corner –section Sanctions & Resolutions)

¹²² The type of disciplinary sanctions are; monetary, notifications and suspension of the membership. The rest could eventually be done by the ordinary justice, if the claimers want to.

The Chilean environment regarding the SMO 4 and SMO 6 is depicted in box III.5.

Box III.5

Background and action plan – SMO 4/SMO 6

Chile's framework – SMO 4 and SMO 6

The CCCH has no oversight or any type of control or influence, over the State's regulatory bodies (SVS and SBIF).

The CCCH has no oversight or control or influence over the universities, professional institutes, technical training centres or technical schools.

The audit firms registered in the REAE, which pertains to the State's regulatory bodies (SVS and SBIF) are the only ones authorized to perform audits of listed and/or regulated corporations in Chile, and as such, these firms are subject to the requirements of these regulators.

Audit firms not registered in the REAE and non-CCCH member accounting professionals are subject to the Courts of Justice.

The CCCH will communicate new standards of the Ethics Code, and/or modifications thereto, to its members, on a timely and continuous basis, using the most efficient methods.

The CCCH will ensure its best efforts to communicate current professional standards, on a timely basis, to educational institutes and the general public.

The SVS has included into the web site¹²³ a list of corporations, audit firms and/or individuals who have been subject to sanctions. The institutions and/or individuals can appeal the superintendencies' resolutions; in this case, the claimers must involve the ordinary justice for civil responsibilities.

The emblematic case of La Polar SA

This case has been the most relevant ever in the country where the de SVS, ordinary justice, clients, minority shareholders and public in general were concerned about the misconduct.

The SVS issued drastic sanctions to executives, and also to the external audit firm that rendered the service (PWC). The reasons considered by the SVS were:

To Executives:

- False information delivered to the superintendence and market;
- Privileged information;
- Reprogramming of credit cards to clients without transparent information in terms of interest charge, number of months of new extended periods, among others.

To the external audit firm:

- Lack of diligence in compliance with external audit procedure in place

¹²³ www.svs.cl (see the lower right corner)

(NAGA);

- Lack of realization of audit test and evaluation of several business processes.

Box III.6

Sanction published by SVS to former president of the board and general manager



SUPERINTENDENCIA
VALORES Y SEGUROS

Hoy se resolvió lo siguiente:

**REF.: APLICA SANCIÓN DE MULTA A DON
PABLO ALCALDE SAAVEDRA**

SANTIAGO, 9 DE MARZO DE 2012.

RES. EXENTA N° 083

VISTOS: Lo dispuesto en los artículos 3° letra e), 4°, 27, 29 y 33 del D.L. N° 3.538, Ley Orgánica de la Superintendencia de Valores y Seguros; 59 letras a) y f), 164, 165 y 166 de la Ley N° 18.045, sobre Mercado de Valores; 42 N° 4 y 50 de la Ley N° 18.046 Sobre Sociedades Anónimas.

Box III.7

Sanction published by SVS to PWC



SUPERINTENDENCIA
VALORES Y SEGUROS

Hoy se resolvió lo siguiente:

**REF.: APLICA SANCIÓN DE MULTA A
PRICEWATERHOUSECOOPERS
CONSULTORES, AUDITORES Y
COMPAÑÍA LIMITADA Y A SU SOCIO
SEÑOR LUIS ALEJANDRO JOIGNANT
PACHECO.**

SANTIAGO, 9 DE MARZO DE 2012.

RESOLUCIÓN EXENTA N° 063

VISTOS: Lo dispuesto en los artículos 3°, 4° y 28 del D.L. N° 3.538 de 1980; 239 y siguientes de la Ley N° 18.045, sobre Mercado de Valores; 55 y siguientes del D.S. 587, Reglamento de Sociedades Anónimas; y Secciones 230, 312, 317, 318, 326, 329 y 333 de las Normas de Auditoría Generalmente Aceptadas.

D. Institutional framework

As mentioned before, in Chile there are many institutions providing the accountancy degrees, and there is no limitation to anyone to create a private entity, as described in the section of national education.

Certification process in the country

The process of culminating in a professional examination is one way to ensure that new entrants into the profession have a minimum level of qualification. As a result, Higher Education entities should seize the opportunity to revamp their academic curricula to meet with international standards regarding to professional certification, CPD, etc., however, the present structure of higher education in the country makes extremely difficult to move into this direction, because, the tertiary education level is autonomous.

There are two professions that must be certified by-law; education (teachers) and medicine (doctors) according to the regulations of the Ministry of Education. Accounting and auditing students are neither certified nor accredited at graduation level. The degree in the country is a document that demonstrates the professional met the educational programme required to get it.

Chilean Accounting Institute (CCCH)

The CCCH initial steps in the profession in Chile come from the National Accountant Register (RNC) in 1932. According to the current statutes by-law, only active members are obliged to comply with professional standards. Before 1981, all the professional organizations in Chile had a relevant power to obligate to individuals related with the profession to adhere to statutes, standards and sanctions. Nowadays, the position of PAOs is weak, despite the fact that the CCCH is still the authority to issue and publish standards for the profession.

Chilean Superintendence of Securities and Insurance (SVS)

The SVS is responsible for the supervision of all activities and entities involved in Chilean securities and insurance markets. The SVS enforces compliance with all laws, regulations, by-laws, and other provisions governing the operation of these markets.

Institutions involved in the process of accreditations

The Law N°20.129, dated from November 2006 established the SNAC, with the following functions:

- Information. To identify, collect and spread information about the system itself;
- Provide license to new educational entities, according to Law N° 18.962.
- Institutional accreditation. Evaluate the mechanism inside the Higher Educational Institution;
- Academic accreditation or curricula. Evaluate the process in place to determine de quality of the curricula offered by private entities.

Coordinating Committee of SNAC (CCSNAC)

Three members will form the Comité Coordinador del SNAC (CCSNAC or Coordinating Committee) as follows; the Vice President of the Higher Education Committee, the President of SNAC and the Division's Chief of Higher Education from the Ministry of Education.

Commission of National Accreditation (CNacA)

It is an autonomous organism created by Law N°20.129, Article 6, and its activities and functions consist of verifying and promoting the quality concept among universities, professional institutes and CFT.

Accreditation process for higher education

Private entities can submit on a voluntary way to the regulation of SNAC. Nevertheless; these institutions will never lose their autonomy in all the educational and institutional process. The period of validation of present accreditation is up to seven years.

Table III.7
Statistics at August 2013¹²⁴

Type of entities	Total group	Accreditation	Non-accreditation	%
Universities – Under CRUCH	25	25	0	100
Universities – Privates	35	24	11*	69
Superior Institutes	44	20	24	45
CFTs	61	16	45	26
Total Entities	165	85	69	52

* Two entities are in the process of licensing (initial phase).

Quality assurance agencies (AAcr).

Law N° 20.129 also created the *agencias acreditadoras* (AAcr or accrediting agencies) as independent enterprises with a unique legal activity (accreditation).

According to AAcr's information is estimated that only 10 per cent to 15 per cent of all individual degrees have adhered to this process. The number of AAcr dedicated to accreditation activities is estimated in 10 companies.

The most relevant entities dedicated to accreditation processes are *Acredita CI®*.

This AAcr is an extension of the Engineering PAO, and acts as an individual Corporate. The market share of this institution is estimated to be 60 per cent of the local market, and the second largest agency is *Akredita*.

Quality assurance agencies – scope.

They are dedicated to evaluate the process applied by each Educational Institution, in terms of Institutional and academic activities. Once the process is

¹²⁴ Information provided by Acreditaci – www.acreditaci.cl

finished and discussed with each individual entity, the AAcr will send the final report to CCSNAC.

An important consideration is that these private institutions (AAcr) do not certify graduation formation¹²⁵ at all, because, by law this process belongs to the private institution.

Inside the process of academic matters, the AAcr will review and evaluate the academic curriculum, investment in research and development, profile of the teachers and admission requirements. At higher education level they act in pre- and post-graduations.

Benefits of the accreditation process

The number of educational entities under the jurisdiction of CCSNAC is 100 per cent, and the benefits related to the jurisdiction of the CCSNAC are the market position of the entity to advertise its brand name and on top of that, they have the opportunity of receiving students that finance their studies through “borrowings” from private financial institutions with guarantee of the Chilean State. Only, those institutions considered with the valid status of “accreditation” by AAcr can benefit from it.

Universities/higher education with different curriculums

The universities and some superior institutes are subject to accreditation from an Institutional point of view as well as academic programmes. All the universities are voluntarily registered into the accreditation programme, either institutional and/or academic careers.

Each entity develops its own academic curriculum, designs the subject to be instructed, the profile of the teachers, practical experience, seminar to attain graduation and thesis.

All the universities and superior institutes include international standards as a normal subject to be instructed.

Two universities were analysed in detail. Universidad de Santiago (USACH), who is member of CRUCH and University Diego Portales (UDP), which is private, and only forms part of the CRUCH in matters related to the admission test (PSU). Both academic curriculums are close to each other, and they put a lot of emphasis on international standards, Risk analysis, and they are focusing in being the best schools in offering the accountancy degree. Both institutions have international agreement to exchange information and students. The duration of the degree is 8 semesters, plus seminar.

The USACH is one the most important traditional universities in the country and its degree of accountancy and audit is one of the highly regarded programmes. It is also an active member of ALAFEC¹²⁶.

The UDP is one the most relevant new private universities in the country. They are in the process of redefining the role and scope of the accountant and audit career. They have a long list of exchange student programme and agreements into its offer.¹²⁷

¹²⁵ Law N° 20.129 stated their mission as agencies dedicated to processes of licensing and academic process, and excluded the certification of graduation formation, because each entity is autonomous.

¹²⁶ www.alafec.unam.mx

In the case of the Superior Professional Institute of Accounting of Santiago (ECAS), its academic curriculum is similar to the programme developed by the above universities, as well as practical experience. This institute follows the same procedure like most of the universities. The students have to obtain “real experience to get a diploma”. The period invested is 8 semesters plus a seminar.

CFTs also offer the degree of CA; however the level of students and its programmes are lower than the ones from universities. The competitive market of employment penalizes them in terms of getting better jobs and earnings.

Coordination, exchange of information and process for interaction among accounting institutions

There is no formal process of coordination among accountancy institutions. The only exception is the action led by the CCCH through the CES, where the members come from different universities, however the universities involved in this Commission are not the most representative of the country, and its impact is low at country level.

Coordination between the Ministry of Education and PAOs

There is no coordination regarding the profession since the issuance of Decree Law N°3.621 in 1981, which changed completely the legal obligation or a precondition to be registered into any kind of PAO.

Funding and sustainability of key educational institutions and PAOs

The funding provided by the Government is limited for any State-owned and traditional universities. The way they are financed is from:

- Aporte Fiscal Directo (AFD or Direct State Funding) is applied to CRUCH’s universities (25)
- Aporte Fiscal Indirecto (AFI or Indirect State Funding) comes from a combination of student’s best score in the PSU and selection of accredited Institutions. Total of student benefited = 27.500.
- Accredited universities benefit through the admission of students with private borrowing granted by the State of Chile.

The AFD is adjusted every year, and its calculation was established when the new rules for higher education started to be issued. The AFI is focused on student’s preference in selecting universities. Distribution of the top five is depicted below. Students with borrowings granted by the State are another type of benefits.

Table III.8
Statistics of indirect funds

AFI – Name of universities	Top five	Income %	CRUCH
Universidad de Chile	1	20.87	Yes
Pontificia Universidad Católica de Chile	2	17.99	Yes
Universidad Técnica Santa María	3	8.33	Yes
Universidad de Concepción	4	6.68	Yes
Universidad de Santiago	5	6.28	Yes
Total	5	60.15	

Professional accountancy organization

There is no funding from Government or other type of entity for the CCCH (Chilean PAO). This situation also impacted its power and capability to contribute to providing a full range of services to the profession. The revenues come from the fees paid by the active members, rent of the central building, and its CPD respectively.

The CCCH created in 1979 a corporate dedicated to continuing professional development, called the Research and Development Institute (INDEP), in order to provide training to active members at lower cost, but also to all professionals interested in accounting and tax matters. The financial contribution of this separate entity is the generation of financial resources to counteract the weakening of the financial position of the institution after the publication of the Decree Law N°3.621.

Regional organization

The Inter-American Accounting Association (AIC) was created in 1949, and it 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) a 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 behaviour; and (e) the dissemination and furtherance of the ethical principles of the accountancy profession.

The regular meetings among the members contribute to exchange experience and cooperation. For instance, CCCH has contributed by sharing with the Plurinational State of Bolivia, Ecuador and Brazil its experience in preparing the adoption and implementation project to converge to international standards and also by sharing experience about how to work with IDB.

E. Integration of international standards into the Chilean system

Challenges faced to implement the IES

The implementation of IES and the harmonization of accountancy curricula at higher education are very difficult issues, because the prevailing laws in the country as explained in section two provide complete autonomy to each higher education entity.

The MINEDUC's mission is consistent with the current laws issued in the 1980's, therefore, this Ministry has neither authority nor jurisdiction to obligate higher education entities in Chile to be submitted to it, and have a common curriculum for the accountancy and audit degree.

Currently in the country, there is a presidential election process, and all the candidates are incorporating into its political programme to make important changes to all education levels in the country, but none of them has mentioned anything regarding the strengthening of the PAOs and/or harmonization of the curriculum for the different degrees.

Superior institutions and private professional academies provide CPD on the accountancy matters and professionals undertake these training on a voluntary basis. They are offering training according to their own definition and needs detected in the professional market, but most of the entities offer trainings - special courses in IFRS. The issue on CPD is the lack of alignment among them, and each entity is providing different type of trainings - special courses, based on international accounting, rather than International Standards in Audit – AICPA, because, the “big four” firms already provide internal training to their employees. The rest of audit firms follow the local standards issue by the CCCH as already explained.

International standards – SMOs

The CCCH as a member body of IFAC addresses issues identified through their responses into the compliance self-assessment questionnaires in order to develop action plans at the PAO level. They form part of a continuous process to support the on-going development and improvement of the accountancy profession. Each action plan is prepared for its own use based on the national frameworks, priorities, process and challenges specific to a particular jurisdiction. The SMOs are explained along the report. The action plan was updated in August 2013 as follows:

SMO 1 – Quality assurance for external auditing firms

Background

The Chilean Corporate Governance Law N°20.382 published and enacted on 20th October 2009, modified Corporation Law N°18.046 and the Securities Market Law N°18.045, establishing substantive changes for listed and/or regulated corporations in Chile, and also the functioning of external auditors. Since then, the external audit firms for listed and/or regulated corporations have to be performed exclusively by firms dedicated to external auditing.

Chilean State's regulatory (superintendencies) control the external audit firms by way of compliance with several requirements, which allows the firms to perform their role of external auditors.

Box III.8

Background and action plan – SMO 1

Chile's framework – SMO 1

- No oversight over the external audit firms, and for this reason, the CCCH will focus on:
 - Encouraging the regulators to adopt the best practices of SMO 1 in the implementation of their system of quality assurance.
 - Assisting the regulators in the implementation of their system of quality assurance.
- The CCCH considers the firms included and recognized by the regulators follow the guidelines of compliance with international standards.
- Regulators (primarily the SVS and SBIF) have maintained its policy of registrations (REAE) and have increased the control over the registered firms.
- The CCCH has a permanent and fully dedicated Auditing Standards Committee (CNA), composed of a partner of an external audit firm, technical director and specialist.

SMO 3 – International Auditing and Assurance Standards Board

Background

The CCCH has the faculty of issuing and setting professional standards for use in Chile, based on the Law N°13.011, article N°13, letter G, as well as maintaining publications concerning the exercise of the profession. The CCCH has adopted the American standard, the AICPA, as the benchmark, because its strengths in the investigation and disciplinary system of misconduct. . The SVS is following the CCCH's rules of auditing.

Box III.9

Background and action plan – SMO 3

Chile's framework – SMO 3

- The CCCH has a permanent responsibility of making timely translations, analyses, setting of standards and the issuance of audit circulars;
- The CCCH will communicate new standards and/or their modifications to its active members and the general public, on a timely and continuous basis, using the most efficient methods;
- The CCCH has a permanent and fully dedicated Auditing Standards Committee (CNA), composed by a partner of an external audit firm, technical director and specialist;
- Superintendencies have a strict control of the firms under their jurisdictions.

SMO 5 – International Public Sector Accounting Standards (IPSAS)

Background

The CGRCH has the sole responsibility, by law to issue and enact the Public Sector Accounting Standards. Every year, in April is reported the Financial Statement of

the Nation addressed to the President of the Republic, and Chambers of Deputies and Senators.

The financial statements report consist of information of 5 Divisions classified as follows:

- Public sector. Includes 1,216 accounting entities;
- Municipality sector. Includes 223 accounting entities;
- State-owned enterprise. Includes 22 accounting entities;
- Higher education. Includes 16 accounting entities (see section two, table VI.2);
- Treasury of the Nation. Consolidates all the offices along the country.

The first two categories mentioned above carry governmental accounting system based on accrual basis (that includes cash received and paid).

The third category is developed by the nation in commercial areas, and most of the entities are corporations and they operate under the Laws N°18.045 and N°18.046 respectively, therefore, they apply IFRS.

The higher education category (State universities) and the Treasury of the Nation (main function is to receive all the payments that individuals, companies and other forms of activities generate some kind of taxes to be paid to the nation), carry governmental accounting system based on accrual basis (that includes cash received and paid).

The CGRCH has designed a concrete plan to implement the IPSAS by 2015. The process consists of identifying few pilot entities along the country to prepare a list of main findings and to compare existing standards versus IPSAS, and determining the gap between the systems.

Since July 2013, the institution is performing a wide dissemination process that should end this current year 2013. To carry out this process, the CGRCH counts with the support of IPSASB, and additionally, the institution is planning to hire a local consultant in order to lead the process of implementation. The process includes training in IPSAS that is led by USACH, as mentioned earlier.

According to the information provided by the President of CCCH's Auditing Standards Committee, there are few draft projects finished as follows:

- Fixed assets;
- Investment property standards;
- Financial assets;
- Tax standards;
- Financial liabilities.

Box III.10

Background and action plan – SMO 5

Chile's framework – SMO 5

Some of the activities being performed by the CGRCH are:

- Since July 2013 it is focused on communicating and spreading to different locations the new International Standards.
- Pilot entities along the country to determine the accounting gap.
- Training in IPSAS (Diploma). The plan consists of 56 hours of training, 44 hours require physical attendance to the university, and 12 hours consist of virtual support. To get the certification in IPSAS, anyone must meet the number of hours and remote examinations. A total of 120 employees will attend to the training programme, and a 50 per cent has already attended (September and October 2013), and the rest will be in April 2014.
- The CGRCH and consultants are identifying the gap between present accounting versus IPSAS
- The CGRCH is harmonizing (converging) the original IPSAS into the Chilean system with several projects as mentioned above.

SMO 7 – International Financial Reporting Standards

Box III.11

Background and action plan – SMO 7

Chile's framework – SMO 7

- The CCCH has a permanent responsibility of making timely translations, analyses, setting of standards and the issue IFRS circulars.
- The CCCH will communicate new standards and/or their modifications to its active members and the general public, on a timely and continuous basis, using the most efficient methods.
- The CCCH has a permanent and fully dedicated Accounting Principles and Standards Committee (CPNC), composed of partners of external audit firms, technical director and specialist.
- The CCCH, through its educational arm, INDEP, carries out training and dissemination activities, both in its main facilities as well as in regions.
- The CCCH issued in December 2010 a Boletín Técnico N°1 (BT or Chilean Accounting Standards), for SMEs to begin reporting their financial statements in accordance with IFRS for SMEs or EPYM. The obligation is for the calendar year of 2013.

Transition to EPYM

A large number of companies in the country belong to the SMEs segment. The CCCH issued the BT N°1, by which all businesses in this segment should report their results according to IFRS for SMEs or EPYM.

There are no concrete sanctions to those companies, if they decide by themselves to continue reporting under the old Chilean Generally Accepted Accounting Principles (GAAP). The SII feels satisfied if companies make the accounting adjustment to determine the Base Taxable Income.

Several academic institutions provide training on this matter; however, the authority of the CCCH to obligate companies to report using EPYM is rather low. The CCCH could make the best endeavour going to media to reinforce the needs to move on, and there is no State regulator to obligate them to switch their system into EPYM in this current year.

The expectation for SME's convergence to the new system as published in the BT N°1, is through financial institutions because they have the right to ask for those clients who are requesting some type of financing, to prepare their financial statements according to international standards.

Shortage of professional accountants/auditors

Representatives from the audit firms, universities, superior institutes and finance areas in the corporations who were interviewed do not feel that there is a shortage of professionals, because the higher education provides enough graduated professionals. In an open market and education being offered by different types of higher education institutions, the professional graduated from a particular institution will earn an annual salary different to another professional. The most prestigious universities belong to CRUCH, and graduated students from these entities will have better jobs.

Recently graduated students will be trained by their new companies, in order to be prepared for that particular company segment and get the culture and business process from the new employer.

In the case of audit firms, they apply a solid process of training in order to provide their employees with specific tools necessary in their industry. Most of the "big four" initiate hunting talent during the graduation phase.

Difficulties in determining the number of accountants

As mentioned before, there is no governmental or PAOs record on the total number of graduated accountants and/or active individuals within the profession of accountancy and audit in the country.

Once the Government introduced and published the Decree Law N°3.621 in 1981, that eliminated the legal obligation or a precondition to be registered into the CCCH, the registers lost the number of active professionals.

A gross estimation can be determined using some historical data, plus the important increase of higher education in the accountancy and audit profession as follows:

- At the end of 1980, the CCCH had registered into its records the quantity of 28,000 active members.

- The CCCH estimated in 1980 that graduated professionals not registered into its book or not working in the profession, were a total of 10,000 or 26 per cent out its jurisdiction.
- The CCCH had 6,000 registered active members in September 2013.

Since 1980, 33 years have passed, and the offer of accountancy and audit degree has doubled, therefore a rough estimation is that there are around 80,000 accounting professionals in Chile.

Incentives for retaining professional accountants and auditors in the country

As mentioned before, Chile offers good opportunities to national citizens to remain in the country because of the national economic performance, security and solid long-term sustainability and Chile being one the most wanted countries in the region for accounting professionals to work.

How successful PAOs have been in implementing the IFAC Code of Ethics

Background

The CCCH adopted the International Ethics Code of IEASB, and published it in Spanish in February 2013.

The superintendencies have effectively the power to penalize corporates, external audit firms and individuals.

Box III.12

Background and action plan of the Code of Ethics

Chile's framework

- The CCCH will communicate and distribute the new standards to its members.
- The CCCH has no oversight whatsoever, or control or influence over the universities, professional institutes, technical training centres or technical schools.
- The CCCH has no oversight over the external audit Firms or the State's Regulatory bodies.
- The CCCH will ensure its best efforts to coordinate and communicate the standards of the Code of Ethics to universities, professional institutes, and others related.
- The CCCH will ensure its best efforts of communications with CNED and CNacA.
- The CCCH will ensure its best efforts to communicate current standards to ordinary justice (court) – civil and penal system and the general public.

The SVS (the most important one), and other superintendencies apply their own regulations regarding the compliance in place.

The SVS has published in its web site¹²⁸, a list of Corporations, external audit firms and Individuals that have been penalized, and others are in the process of defending their position and/or legally appealing. The procedure consists of its own discovering and/or complaints from third parties. Then the SVS investigates and determines the degree of misconduct and notifies to the corporations and/or individuals.

There are no individuals who have lost their licence, because in Chile, except Education and Medicine careers, the others are not regulated. The Code of Ethics (SMO 2) is a mere reference. (Please refer to the emblematic case of La Polar SA.)

Language as a barrier to understanding and efficiently implementing standards and participating in the standards setting process

The native language is Spanish. The level of English language in Chile is rather low. However, this is not a limitation for applying the international standards, because the CCCH has two permanent commissions on international standards, and they timely translate and issue the standards. These standards are used for all the professional, educational and regulators institutions in Chile.

There is not any mechanism for coordinating translation from English into Spanish at the regional level. The CCCH translates, both the IFRS AICPA audit standards, according to a contract with IASC Foundation, and AICPA respectively.

The second language is not a limitation to professionals to attend to seminars because of simultaneous translations, and regarding to publications, all international standards and other pronouncements related to the profession are already translated into Spanish, before they are published into the Chilean territory. In the case of international professionals (consultancy), they are required to speak Spanish. Other publications in foreign languages are limited for a large number of professionals. There are not official records nor from the accountancy PAO of the number of professionals with English as a second language, but it is estimated lower than 10 per cent, because a large percentage of the students of accountancy–audit profession come from low-income families, and students at the bilingual schools normally look for other professions.

F. Other participants in the supply chain

Background

Every day, individuals dedicated to the accountancy and audit profession are becoming cautious regarding their obligations and responsibilities. This is the case for members of the board of directors, top executives and audit firms regarding the financial reporting and the quality assurance required of these professionals. For instance, members of a board of directors could be subject to civil and penal contingencies (please refer to the emblematic case of La Polar SA, presented earlier).

Corporate governance

The Chilean Corporate Governance Law N°20.382, was published and enacted on October 20, 2009, and modified the Corporation Law N°18.046 and the Securities Market Law N°18.045, establishing substantive changes for listed corporations, and also the functioning of external auditors. Since then, the external audit for listed corporations has to be performed exclusively by firms dedicated to external auditing,

¹²⁸ www.svs.cl (see lower righth corner –section Sanctions & Resolutions)

with the audit by a sole practitioner being prohibited. The SVS and the SBIF established the External Audit Firms Register (REAE) and there are 72 professionals and 10 firms respectively.

Training for directors

Recently, some universities are providing special training for professionals and current members of the boards of directors, either for private and/or State-owned corporations.

As an example the Universidad Adolfo Ibañez (UAI)¹²⁹ provides training to professionals to become directors¹³⁰. The International Certificate in Company Direction (ICCD) is a unique programme in SAM. When a professional successfully finishes this programme, he or she has the option to undertake an examination led by the Institute of Directors in the United Kingdom.

The UAI is a private university accredited in the country by CNacA, and internationally by the Association of MBAs (AMBA) and Association for Advance Collegiate Schools of Business (AACSB), and ranked first private university in Chile according to *América Economía*, and the CSIC (Spanish Institution for University Research).

Corporate social responsibility

Background

As Chile is increasingly integrated into the worldwide trade, CSR becomes more relevant to the country and its workers, as we are quickly influenced by decisions made by nations committed to this topic, and it is a process aiming at embracing responsibility for the company's actions and encouraging a positive impact through its activities on the environment, consumers, employees, communities, stakeholders, and all other members of the public.

As this subject progresses and governmental policies are defined and put in place, it will be an opportunity and a challenge for professionals to be prepared to provide services in this area. Nowadays, there are several firms providing training and assisting private corporates in their initiatives to design and implement this business model.

CSR is titled to aid an organization's mission as well as guide to what the company stands for and will uphold to its consumers. ISO 26000 is the recognized international standard for CSR, and currently is not a legal requirement in Chile.

The concept and practice of CSR is in the process of construction and diffusion, however, there are few large corporations that have incorporated this activity within their business process. The first steps on this matter were done during the 90's, by a joint effort of United Nations Environment Programme (UNEP) and the ProHumana Foundation, who launched the first conceptual document, in a tri-dimensional perspective as follows:

- Democratic governance;
- Reduction of poverty;
- Productive development, environmental programme and energy.

¹²⁹ www.uai.cl

¹³⁰ Look for; www.uai.cl/ICCD:Certificación de Directores.

The Ministry of Economy, Development and Tourism (MEDT) is the governmental entity in charge of leading the introduction CSR policies. In October 2012, Chile signed a memorandum of understanding (MOU) with Sweden, becoming the first country in LATAM and the second in the world (after China). The goal is to get the support, collaboration and the large experience of this country. Sweden has a national policy that promotes CSR, throughout a complete implementation of OECD guidelines for multinational companies and others.

The MEDT announced in October 2013 the creation of a Corporate Social Responsibility Council for Sustainable Development (CRSDS) that will be led by the Minister, and other ministers and representatives of the private sector. This Council will allow the country to give an important step towards the route of sustainability development for State-owned entities as well as private companies.

The Confederation for Production and Commerce (CPC)¹³¹

The Confederation for Production and Commerce (CPC) was founded in 1935, and it is the association that groups and represents the largest Chilean business community. It assembles the main productive sectors of the country and is composed of the following six branches listed according to the order in which they were incorporated into the CPC:

- Chilean Federation of Agriculture (SNA). Founded in 1838;
- Chilean Chamber of Trade, Services and Tourism (CNC). Founded in 1858;
- Chilean Federation of Mining (SONAMI). Founded in 1883;
- Chilean Federation of Industry (SOFOFA). Founded in 1883;
- Chilean Chamber of Construction (CChC). Founded in 1951;
- Chilean Federation of Financial Institutions and Banks (ABIF). Founded in 1945.

This Confederation concentrates a large part of the GDP of the domestic corporations, and, in order to grasp its importance, one of its branches, the SOFOFA, which is a private, non-for-profit trade association representing the views and interests of Chilean industry, and its members accounts for 80 per cent of local industry output and 30 per cent of the GDP.

A large part of CPC's members¹³² are providing CSR disclosures on a voluntary basis in their "Annual report - Memoria"¹³³. Corporations like; ENDESA¹³⁴ (electricity), Banco de Chile¹³⁵ (banking), Copec¹³⁶ (gasoline and oil distribution), etc., describe their commitment with transparent governance and CSR respectively.

State regulator entities (superintendencies)

¹³¹ www.cpc.cl

¹³² www.cpc.cl

¹³³ Memoria is an annual report printed in a booklet, where the Board of Director makes a formal communication to shareholders and the community in general that includes; Financial Results, External audit opinion, corporate governance, CSR, and other information of public interest.

¹³⁴ www.endesa.cl

¹³⁵ www3.bancochile.cl

¹³⁶ www.ec.cl

At the moment there is no obligation for corporations under the jurisdiction of State regulators to disclose their CSR activities and achievements. The only certificate (declaration) signed by the board of directors to SVS is related to corporate governance.

Institutions involved in CSR programmes

There is a relevant group of firms dedicated to support the design and implementation of CSR, energy and sustainability for corporations who are willing to do voluntary disclosures. Some of the firms are: Prohumana¹³⁷; SOFOFA¹³⁸; Acción RSE¹³⁹ and FUNDES¹⁴⁰, etc.

G. Capacity-building needs

Background

The rules dictated in the 1980's for higher education allowed each educational entity to develop its own curriculum, despite the fact that a large portion of the institutions involved in this market offer similar curricula, but the professional's feeling is the need for having a harmonized curriculum, common vision, entry requirements, certifications and CPD.

Certification of new entrants to the profession could be an excellent opportunity to strengthen the capabilities, as well as to introduce the IES and its philosophy of continuing professional development, for those already working in accountancy or being leaders in financial areas.

Higher education schools have understood that converging towards international standards is highly important, and they have been introducing these subjects into their curricula.

Examinations or formal professional development in business matters should be a requirement to allow all potential candidates to become members of a board of directors.

International cooperation: twinning exercises, technical assistance to other countries

The CCCH, UDP and UAI, among others, have cooperation as mentioned earlier. At the moment there are no mutual recognition agreements with other countries. Cooperation arrangements between members of IFAC, AIC, CreCer, etc., exist in accounting relating matters, professional associations and sharing domestic experience.

SVS is an active member of the International Organization of Securities Commissions (IOSCO), and participates into the Accountancy and audit Committees. During the current year, IOSCO introduced a new educational portal of IFRS matters for all its members. The IOSCO version is available in English.

Another agreement of cooperation is related to the Instituto Iberoamericano de Mercados de Valores (IIMV or Ibero-American Institute of Securities Market), where the SVS is member since 2008. On an annual basis 2–4 employees attend trainings and there is also training available on-line.

¹³⁷ www.prohumana.cl

¹³⁸ www.sofofa.cl

¹³⁹ www.accionrse.cl

¹⁴⁰ www.fundes.org

CReCER

Accounting and Accountability for Regional Economic Growth (CReCER)), since its foundation in 2007 has significantly affected the adoption and implementation of international standards and best practices in accountancy, throughout, periodic seminars, lectures and exchange of experience among members. CReCER is a public-private partnership between IFAC, the Inter-American Development Bank (IDB), the World Bank, and the Global Public Policy Committee.

H. Lessons learned, conclusions and outlook

Institutions

The CCCH has made an important contribution in developing the accountancy profession in the country for many years. However, the CCCH has a limited capacity of resources weakening its capacity to undertake many of the functions and responsibilities outlined into its bylaws.

The exceptions to develop the core functions are the constitution of a permanent teamwork of CCCH's Accounting Principles and Standards Committee and Auditing Standard Committee respectively. The institution is the market reference in matters of issuance of international standards (agreement with the International Accounting Standards Committee and the IASC Foundation) and to translate and communicate the new releases of the IFRS. Similar situation is given with the audit standard through the communications of AICPA.

The CCCH cannot impose nor obligate all professional or corporations to follow its standards due to the lack of legal support in the country. This situation is extended to the Code of Ethics and the sanctions system. The superintendencies have the power by-law to control, to investigate and apply sanctions, to all corporations under their jurisdiction. Superintendencies can issue particular regulations or interpretations to international standards without involving the CCCH.

Therefore, there is a need for a better coordination between superintendencies and CCCH in order to strengthen the profession and improve the implementation of international standards. In practice the State regulators are self-sufficient in their procedures and decisions, and because of the by-law mission, they only get in touch with the CCCH when they want to discuss interpretation of the standard, but the last word and decision belongs to them.

Government

The State has a big responsibility in redefining its role in the higher education level and the way the professions are being developed, updates in terms of CPD, and standard academic curricula (harmonization), and certification. Back to 1980 and older periods seem to be utopic, however, the country needs to consolidate and strengthen all professions to be efficient and have more tools to compete globally.

Another simpler way for the Government to be indirectly involved is by providing a variable contribution per each Active member of each PAO in Chile, in order to support them in becoming stronger and continue contributing with the country's development.

PAOs

In order to be long-term financially sustainable institutions, they have to look for another way of generating income with activities like INDEP (CCCH), Acreditaci (Chilean Engineering Institute), and/or obtain some kind of funding from Government.

Professionals

The accountancy and the application of international standards offer a reasonable position to professionals within SAM, however, a formal and governmental policy of CPD, harmonization of the education and certification could really contribute to have better professionals.

Stakeholders consulted in preparing the case study

UNCTAD would like acknowledge with appreciation the contributions of a number of stakeholders in Chile to the successful completion of this case study. The Chilean Accounting PAO (CCCH) provided extensive information on matters relating to international accounting organizations, local technical committees in accounting and audit, and education. The executives involved in providing information and discussions were; Raúl Muñoz – President of CCCH, Jesús Riveros – President of Auditing Standards Committee, Mario Muñoz – President of Accounting Principles and Standards Committee, and Sergio Mercado – Specialist in audit and Accounting matters. The Chilean Superintendence of Securities and Insurance (SVS) designed Olga Salashina – International Area Analyst as the focal point in coordinating meeting with specialists in the International Standards, and issued written comments on the subjects discussed. The Accrediting Agency of Chilean Engineering Institute (Acreditaci) and Jéssica Pizarro – Accreditation Manager who provided interesting and detailed information of the higher education and the business model used by her entity to perform its mission.

The perspective of higher education, State-owned and private universities, and professional institutes were discussed with several important executives. The University of Santiago de Chile – USACH designed Isabel Torres, Director of the IFRS formation programme, as a counterpart to discuss and get information of the accountant and auditor degree (curriculum, practices, degrees, post graduate courses, and exchange student programme). On the other side, the University Diego Portales (UDP) gave the vision of private business education through Camilo Melis, Dean of Accountant and Auditor Careers. Lastly, the Superior Professional Institute of Accounting (ECAS) was discussed and analysed with Luis Werner-Wildner, Executive Director with a similar approach to the previous ones.

Acronyms (institutions)

Acronym	Name of the Institution	Web Site
Acreditaci	Accrediting Agency of CICH	www.acreditaci.cl
AIC	Inter-American Accounting Association	www.contadores-aic.org
AFP	National Pension System - Superintendency	www.spensiones.cl
BCCH	Central Bank of Chile	www.bcentral.cl
CNED	Council of National Education	www.cned.cl
CCCH	Chilean Accounting Institute	www.contach.cl
CGRCH	Government Accountability Office	www.contraloria.cl
CReCER	Accounting and Accountability for Regional Economic Growth	www.ifac.org
CRUCH	Council of Rectors of Chilean Universities	www.consejodirectores.cl
ECAS	Superior Professional Institute of Accounting - Santiago	www.ecas.cl
IIMV	American Institute of Securities Market	www.iimv.org
IFAC	International Federation of Accountants	www.ifac.org
INDEP	Research and development Institute - CCCH	www.indep.cl
INE	National Statistics Institute	www.ine.cl
IOSCO	International Organization of Securities Commissions	www.iosco.org
MHac	Ministry of Finance	www.minhda.cl
MINEDUC	Ministry of Education of Chile	www.mineduc.cl
SBIF	Financial Institutions and Banks Superintendent	www.sbif.cl
SII	Internal Revenues Service	www.sii.cl
SNAC	National Quality Assurance System	www.cned.cl/public
SOFOFA	Chilean Federation of Industry	www.sofofa.cl
SVS	Chilean Securities and Insurance Supervisor	www.svs.cl
UdeCH	State University of Chile	www.uch.cl
UDP	University Diego Portales	www.udp.cl
USACH	University of Santiago	www.usach.cl
UAI	University Adolfo Ibañez	www.uai.cl
CPC	Confederation for Production and Commerce	www.cpc.cl
ENDESA	Electricity Business	www.endesa.cl
BCH	Banco de Chile	ww3.bancochile.cl
COPEC	Gas and Oil Distribution	www.ec.cl
MERCO	Business Monitor of Corporate Reputation	www.merco.cl
AIC 2010	EStudio de Remuneraciones	www.aic.cl/?p=1865
ALAFEC	Latin American Association of Colleges and Schools of Acct.	www.alafec.unam.mx
E&Y	Ernst and Young – audit Firm	www.ey.com
Deloitte	Deloitte – audit Firm	www.deloitte.com
PWC	PWC – audit Firm	www.pwc.com/cl

Acronyms (others)

AAcr	Agencias Acreditadoras (Quality Assurance Agencies)
ABIF	Asociación de Bancos e Inst. Financieras (Chilean Federation of Financial Institutions and Banks)
Acreditaci	Agencia Acreditadora del CICH (Accrediting Agency of CICH)
ADT	Accounting Development Tool (UNCTAD)
AIC	Asociación Interamericana de Contabilidad (Inter-American Accounting Association)
AICPA	American Institute of Certified Public Accountants
AFD	Aporte Fiscal Directo (Direct State Funding)
AFI	Aporte Fiscal Indirecto (Indirect State Funding)
AFP	Administradora de Fondos de Pensión (National Pension System)
ALAFEC	Asociación Latino Americana de Facultades y Escuelas de Contaduría y Administración (Latin American Association of Faculties and Schools of Accounting and Administration)
ASB	Auditing Standards Board
BCH	Banco de Chile
BT	Boletín Técnico (Chilean Accounting Standards)
CA	Colegiados Activos del CCCH (Active members)
CCSNAC SNAC)	Comité Coordinador del SNAC (Coordinating committee of SNAC)
CES	Comisión de Educación Superior (Commission for Higher Education)
CG	Contador General (General Accountant)
CN	Consejo Nacional del CCCH (National Council)
CNA	Comisión de Normas de Auditoría (CCCH's Auditing Standards Committee)
CNacA	Comisión Nacional de Acreditación (Commission of National Accreditation)
CNC	Cámara Nacional de Comercio, Servicios y Turismo (Chilean Chamber of Trade, Services and Tourism)
CNED	Consejo Nacional de Educación (Council of National Education)
CCCH	Colegio de Contadores de Chile (Chilean PAO)
CChC	Cámara Chilena de la Construcción (Chilean Chamber of Construction)
CGRCH	Contraloría General de la República de Chile (Government Accountability Office)
CFT	Centro de Formación Técnica (Technical Training Centre)
CICH	Colegio de ingenieros de Chile (Chilean Engineering Institute)
CPC	Confederación de la Producción y del Comercio (Confederation for Production and Commerce)
CPD	continuing professional development
CPNC	Comisión de Principios y Normas de Contabilidad (CCCH's Accounting Principles and Standards Committee)
CRcER	Contabilidad y Responsabilidad para el Crecimiento Económico Regional (Accounting and Accountability for Regional Economic Growth)
CRSDS	Consejo de Responsabilidad Social para el Desarrollo Sostenible (Corporate Social Responsibility Council)
CRUCH	Consejo Rectores de las Universidades Chilenas (Council of Rectors of Chilean Universities)
CSR	Corporate Social Responsibility

ECAS	Superior Professional Institute of Accounting
EPYM	IFRS for SMEs
GAAP	Generally Accepted Accounting Principles
GAAS	Generally Accepted Auditing Standards
GDP	Gross Domestic Product
IAASB	International Audit and Assurance Standards Board
IAESB	International Accounting Education Standards Board
IASB	International Accounting Standards Board
IASC	International Accounting Standards Committee
IASCF	International Accounting Standards Committee Foundation
IIMV	Instituto Iberoamericano de Mercado de Valores (Ibero-American Institute of Market Securities)
IDB	Inter-American Development Bank
IES	International Education Standards
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standards
IIMV	Ibero-American Institute of Securities Market
IMF	International Monetary Fund
INDEP	Instituto de Investigación y Desarrollo Profesional (Research and Development Institute)
INE	Instituto Nacional de Estadísticas (National Statistics Institute)
ISA	International Standards on Auditing
ISAR	Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting
IOSCO	International Organization of Securities Commissions
IPSAS	International Public Sector Accounting Standards
MEDT	Ministerio de Economía, Desarrollo y Turismo (Ministry of Economy, Development and Tourism)
MERCO	Monitor Empresarial de Reputación Corporativa (Business Monitor of Corporate Reputation)
MIF	Multilateral Investment Fund
MHac	Ministerio de Hacienda (Ministry of Finance).
MINEDUC	Ministerio de Educación de Chile (Ministry of Education of Chile)
MOU	Memorandum of Understanding
NAGA	Normas de Auditoría Generalmente Aceptadas en Chile (Chilean Generally Accepted Auditing Standards)
OECD	Organization for Economic Cooperation and Development
PAA	Prueba Aptitud Académica (Academic Aptitudes Test)
PAO	professional accountancy organization
PSU	Prueba de Selección Universitaria (University Selection Test)
RAEA	Registro de Empresas de Auditoría Externa (External Audit Firms Register)
RNC	Registro Nacional de Contadores (National Accountant Register)
ROSC	Report on the Observance of Standards and Codes (World Bank)
SAM	South American Region
SBIF	Superintendencia de Bancos e Instituciones Financieras de Chile (Chilean Superintendency of Financial Institutions and Banks)
SEC	Securities and Exchange Commission (U.S.)
SII	Servicios de Impuestos Internos (Internal Revenue Service)
SME	Small and medium-sized enterprise
SMO	Statement of Membership Obligations

SONAMI	Sociedad Nacional de Minería (Chilean Federation of Mining)
SNAC	Sistema Nacional de Aseguramiento de la Calidad (National Quality Assurance System)
SOE	State-owned Enterprise
SOFOFA	Sociedad de Fomento Fabril (Chilean Federation of Industry)
SP	Superintendencia de Pensiones de Chile (Chilean Superintendency of Pensions)
SVS	Superintendencia de Valores y Seguros de Chile (Chilean Superintendency of Securities and Insurance)
UAI	Universidad Adolfo Ibañez (University Adolfo Ibañez)
UNEP	United Nations Environment Programme
UNCTAD	United Nations Conference on Trade and Development
UdeCH	Universidad de Chile (State University of Chile)
UDP	Universidad Diego Portales (University Diego Portales)
UF	Unidad de Fomento (Indexed Unit of Account)
USACH	Universidad de Santiago (University of Santiago)

Chapter IV. Case study of Denmark¹⁴¹

A. Introduction

Accountants and State-authorized public auditors, among others, constitute a key element of the human capacity chain that serves as an integral part of the process of producing high-quality corporate reporting at the local, regional and global levels. Strengthening the competencies of professional accountants, auditors and other actors working on and with the production of accounts and financial reporting, is therefore considered a central element in global efforts towards continuous improvements in corporate reporting and auditing practices.

The preparation of financial reports by professional accountants and the ultimate audit of such statements are a critical factor in the decision making process for investors, creditors and public authorities. During the last decade the regulation of audit practice and the audit profession in Denmark has predominantly mirrored international developments. Today accounting and audit regulation for issuing financial statements and the verification thereof follow international standards, with the exception of situations where Danish law is more restrictive in its demands (Holm and Warming-Rasmussen, 2004).

The principal elements for granting accounting certification and licences include education, examination, and experience requirements. At the international level there are initiatives for these requirements to be governed through International Education Standards (IES) issued by the International Accounting Education Standards Board (IAESB)¹⁴² of the International Federation of Accountants (IFAC). This chapter focuses on the governance of education, certification and licensing (qualification) and practical experience requirements for the ‘State-authorized public auditors’ (hereafter ‘auditors’). In Denmark there is only one regulated professional designation and that is the professional designation for State-authorized auditor. There is no Danish professional designation for practicing professional accountants. This means that there are no requirements for a professional designation to practise as an accountant in Denmark. As will be illustrated in this case study accounting functions in the Danish business community are often occupied by individuals that have completed university degrees in the area of accounting and auditing.

Denmark is a sovereign State in Northern Europe and is a member of the European Union. It is a small country, in terms of both land area and population (5.6 million inhabitants). The currency is the Danish krone, which has been tied to the euro since 1 January 1999. Denmark ranks 15th on the Human Development Index¹⁴³ (2013). Table IV.1 provides some key figures on the economic situation in Denmark.

¹⁴¹ This case study was prepared and edited by the UNCTAD secretariat based on substantive input provided by Professor Caroline Aggestam Pontoppidan, Copenhagen Business School, Denmark.

¹⁴² Information on the IAESB is available here; <http://www.ifac.org/education> (accessed 15 August 2013).

¹⁴³ United Nations Development Programme (UNDP), <http://hdrstats.undp.org/en/countries/profiles/DNK.html> (accessed 1 July 2013).

Table IV.1
Key economic indicators, Denmark

Year	GDP purchasing-power parity (US\$ billions)	GDP per capita (US\$)	Public debt (% of GDP)
2012	208.5	37 700	45.3
2011	209.4	37 700	46.6
2010	207.8	37 500	

Source: Index Mundi, 2013.¹⁴⁴

There is currently no fully comprehensive analysis of the financial reporting and audit industry or the total market for audit and other accounting services in Denmark. The best quantitative estimation of the audit and accounting market place in Denmark is provided by the Danish Statistics Office. This offers reporting on accountancy, bookkeeping, auditing and tax services (cf. industry code 69.20.00). The last compilation of data (2009) illustrates that sales under this industry code in 2009 amounted to a total of 15.7 billion Danish kroner (DKr) (equivalent to US\$2.81 billion)¹⁴⁵. The distribution shows that the actual mandated audit activities represent 31 per cent of this total. Bookkeeping and professional accounting services (non-audit services) represented approximately 48 per cent and tax advice and other advisory services represented 7 per cent. The remaining 14 per cent was distributed among various unspecified services under this industry code. Another way to get a grasp of the size of the audit and accounting market in Denmark is to consider the total revenue for the audit industry (i.e. revenue of all professional audit/accounting firms) which in 2008 amounted to DKr 15.8 billion¹⁴⁶ (US\$2.83 billion). In addition annex IV.3 provides an overview of the number of audited financial reports produced annually in Denmark (FSR, 2013).

FSR Danish Auditors¹⁴⁷ reports that they currently have 6,000 individuals and 800 accounting/audit firms as members. To be a member of FSR Danish Auditors one has to be either an authorized auditor (or authorized firm) or an enrolled candidate in the qualification process towards becoming a State-authorized public auditor in Denmark. FSR Danish Auditors is a member of IFAC.

Denmark is an interesting case study, having in 2013 both introduced a reform of its system of audit education and launched a new Danish limited audit ('audit-light') product. Both these initiatives are likely to have an influence on the human capacity requirements in the country. The details of these reforms are elaborated upon later in this case study.

¹⁴⁴ For additional data on Denmark there are a number of sources. A comprehensive overview is provided at http://www.indexmundi.com/denmark/economy_profile.html (accessed 15 July 2013).

¹⁴⁵ Denmark uses the krone as its currency and does not use the euro, having negotiated an opt-out from participation under the Edinburgh Agreement in 1992. The Danish krone is part of the European Exchange Rate Mechanism (ERM II), so its exchange rate is tied to within 2.25% of the euro.

¹⁴⁶ In comparison, the revenue for lawyers was DKR 10.2 billion (US\$1.82 billion) and for management consultants was DKR 15.5 billion (US\$2.77 billion) in 2009 (cf. FSR Danish Auditors, 2010).

¹⁴⁷ FSR Danish Auditors is, after the fusion in 2011 between the former Foreningen for Statsautoriserede Revisorer (FSR) and Dansk Revisorforening and REVIFORA, the only professional audit association in Denmark. After the fusion the abbreviation FSR is no longer spelled out in full.

B. National education system

In Denmark there is a clearly designated body responsible for the governance and implementation of entry requirements to professional accountancy education. The overall mandate to manage and regulate the entry requirements to the audit profession rests with the Danish Commerce and Companies Agency. The requirements for entering into an accounting education programme follow the stipulations of the 8th European Union Directive on statutory audit and are aligned with the requirements of IFAC's International Education Standards. However, as is described in below section on regulatory actors, a number of other actors have a role in implementing various steps of the overall entry requirements (i.e. theoretical education, practical experience and qualifying examinations) to the audit profession.

In Denmark it is the Parliament that approves and issues the Danish Audit Act. Under the Parliament there are two governmental institutions, the Ministry of Economic and Business Affairs and the Danish Commerce and Companies Agency, which oversee developments for regulatory purposes in the areas of financial reporting and auditing. More specifically, the Danish Audit Act (paragraph 32) mandates the Danish Commerce and Companies Agency to supervise auditors and audit firms. In response to such mandate the Danish Commerce and Companies Agency has three audit institutions (the Danish Audit Commission, Danish Oversight Institute, Danish Audit Board) in place to ensure continuous quality assurance of Danish regulation and practice of auditors and audit firms.

In addition to its overall supervision mandate, the Danish Commerce and Companies Agency is specifically mandated under the Danish Audit Act to carry out the following tasks:

- (a) the examination and continuous professional education and development of Danish auditors;
- (b) quality control;
- (c) continuous evaluations (and studies) on the profession in Denmark and its regulation;
- (d) disciplinary sanctions;
- (e) cooperation and transparency among governmental institutions across the country pertaining to questions on the audit market, profession and the firms.

In discussing the detailed entry requirements explanation is provided on the various roles of professional accounting/audit firms, professional accounting association (FSR Danish Auditors) and universities throughout the qualification process.

Entry requirements

The entry requirements meet the demands stipulated in the 8th European Union Directive and those of the IES. In the past there have been discussions in Denmark as to whether the entry requirements were too stringent and thus creating a barrier to entry. Nevertheless, it has, for now, been concluded that the current inflow of candidates is satisfactory. In Denmark there has been a stable inflow of candidates and, ultimately, qualified State-authorized auditors. Since 2007 there has been an increase in the

number of qualified auditors.¹⁴⁸ In order to continue to stimulate an inflow of candidates to the qualification process for State-authorized auditors Denmark has recently reformed some of the requirements in the qualification process. These are described under the detailed entry requirements to the profession.

Table IV.2

Illustration of number of candidates that annually pass the final qualification examination

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
State-authorized auditors	71	69	83	64	70	89	75	76	84	90

There are a few routes that candidates can take in order to become eligible to enter the process of becoming a State-authorized auditor in Denmark.

Nevertheless, before reviewing the process through which one can become eligible to sit for the qualification exam, is of relevance to point out that the Danish Audit Act stipulates the following high-level requirements for any candidate to fulfil, before being able to be approved as a State-authorized auditor:

- Must be resident in Denmark or another European Union/EEA country or Switzerland;
- Must be of legal age and not under guardianship¹⁴⁹;
- Must have financial indemnity;
- Must not have been notified for restructuring proceedings or bankruptcy.

In addition, as will be described in detail in the remainder of this case study, the Danish Audit Act specifies that any candidate must have at least 3 years (after the age of 18 years) of practical audit/professional accounting experience with a certified audit/accounting firm.

In addition, all candidates must pass the qualification exam for approval. The requirements for graduation are regulated by the Decree on Public Accountant exam/qualification exam for chartered and registered auditors. The qualification for becoming a State-authorized auditor may be denied if the candidate has outstanding debts to the public of Dkr 50,000 (approximately US\$8,770¹⁵⁰) or more. In addition, the authorization can be denied pursuant to Penal Code § 78.

The high-level process for becoming eligible to sit for the qualifying examination to become a State-authorized auditor is illustrated in figure IV.1.

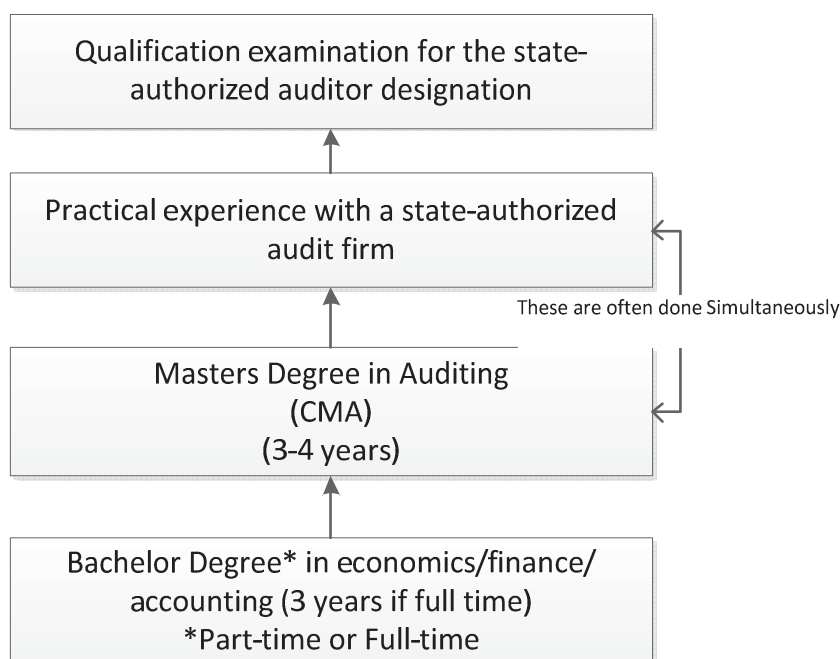
¹⁴⁸ In Denmark a large focus over the last decade has been to encourage more women to sit the qualification examinations. In Denmark a large share of women leave for other job roles after having completed the master's degree in auditing. Approximately 15 per cent of the State-authorized auditors qualifying every year are women. This is an increase from the 3.5 per cent back in 1981, but FSR Danish Auditors do not consider 15 per cent as satisfactory.

¹⁴⁹ A person lawfully invested with the power, and charged with the obligation, of taking care of and managing the property and rights of a person who, because of age, understanding, or self-control, is considered incapable of administering his or her own affairs

¹⁵⁰ Exchange rate as of 8 July 2013 of 5.6977.

Figure IV.1

High-level overview of the process of becoming eligible to sit the qualifying examination for State-authorized auditor



Step 1. Bachelor's degree

There are three options available for students who have completed upper secondary education (high school) and who wish to embark on the process of becoming a State-authorized auditor:

- (1) Start an “audit student training programme”¹⁵¹ in an audit firm and follow the part-time Bachelor programme (HD 1 and part 2),

The audit student training programme is a two-year programme that combines office training with a six-week course (spread over the two-year duration of the programme) specializing in auditing. The courses are often offered by either the Danish professional accounting association, FSR Danish Auditors, or by a business school/university. The purpose of this programme is to ensure a close link between theory and practice in the start-up period of an auditor's career.

- (2) Start as a trainee (i.e. not enrolling as an audit student within a professional accounting firm) in a professional accounting/audit firm and take a part-time bachelor's degree (HD 1 and 2 Part).

A large number of the authorized professional accounting firms offer trainee programmes for candidates entering the profession. A trainee will during the day carry out regular duties at the accounting firm and in the afternoon/evening attend the required classes in order to be able to complete the part-time bachelor's degree offered at business schools.

¹⁵¹ Professional accounting firms in Denmark offer new candidates to the profession places on their ‘audit student training programme’. These programmes are designed to provide the student with in-house training and the practical experience required. The candidates in these programmes are supported by the firms to take the master's degree in Auditing.

- (3) Start by undertaking a full-time bachelor's degree (HA) at a business school/university (see table IV.3).

The degree is typically structured around four core subjects: finance; accounting; marketing; and organization. In addition, there are a number of other required courses such as micro- and macroeconomics.

In Denmark there are currently 10 universities/business schools offering the bachelor's degree in business/finance, well spread across the country.

Table IV.3
Overview of providers of bachelor's degree in business/finance in Denmark

University/business School	City
Copenhagen Business School (Handelshøjskolen i København) (CBS)	Copenhagen
Århus Business School (Handelshøjskolen i Århus) (AAU)	Århus
Syddansk Universitet (SDU)	Kolding
Syddansk Universitet (SDU)	Esbjerg
Syddansk Universitet (SDU)	Odense
Syddansk Universitet (SDU)	Slagelse
Syddansk Universitet (SDU)	Sønderborg
Roskilde Universitet	Roskilde
Ålborg Universitet (ASB)	Ålborg
Århus Universitet	Århus

A specific listing is maintained at the Danish Commerce and Companies Agency and Danish Audit Committee of the specific bachelor's degrees at each of the educational institutions listed in table IV.3 allowing access to the master's degree in auditing (CMA).

Step 2. Master's degree in auditing

The Danish qualification process for State-authorized auditors dates back 100 years. The first audit exam was introduced and regulated by the Royal Decree of 25 July 1913. The audit qualification exam was slightly amended through the years up to 1967. In 1967, however, a new examination was introduced together with the introduction of an auditing degree, a master's with audit as a speciality. The CMA programme was established on 1 September 1968 at the Copenhagen Business School (CBS) and Århus Business School. These two business schools thus became the basic institutions for providing the theoretical training for chartered accountants.

Up until May 2013 the CMA was a requirement in order to become eligible to sit the qualifying examinations. However, the recent proposals for amendment will open

up access to the qualification process to other graduates. Nevertheless, the theoretical level of the candidates' education must, remain at a level corresponding to the CMA. Therefore specific subject requirements will be set for candidates attempting to qualify other than via the master's degree route.

The specific subjects that the candidate will need education in at graduate level are auditing, accounting, tax and business law. The relevant theoretical training must be successfully completed at least one year before the qualifying exams.

It should be noted that figure IV.1 notes that to complete the master's degree in auditing often takes 3–4 years. This is because most students enrolled in this programme work full-time on the side of the study programme.

Entry requirements to the master's degree in auditing

All candidates with a bachelor's degree in accounting or finance have direct access to the CMA. Furthermore, candidates with a master's in economics and political science have direct access. However, it should be noted that admission requirements vary slightly between the educational institutions (see table IV.3 for a list of providers of the CMA).

The content of the master's degree in auditing

The key subjects and distribution of ECTS among subjects at each of the educational institutions that offer the CMA are shown in table IV.4.

Table IV.4

Overview of subjects in the European Credit Transfer and Accumulation System for each institution offering the master's degree in auditing¹⁵²

Educational institution	Auditing	Accounting		Tax	Business law	Master's thesis
		Financial	Management			
CBS	16.5	8.5	7.5	13.5	14	30
ASB	20	15	5	15	15	30
AAU	20	12	8	20	15	30
SDU	20	10	10	20	15	30

Courses are provided in Danish, while the literature is either in English or Danish. Annex IV.1 provides an overview of the key courses included in the CMA and annex IV.2 provides an overview of the literature contained in the audit course.

Stakeholder coordination on the theoretical education provided through the master's degree in auditing

The Danish Academic Educational institutions (table IV.3) that offer the CMA are represented on the Danish Audit Committee (see figure IV.5). A task force of the Danish Audit Committee ¹⁵³ recently reviewed the education and examination

¹⁵² To read more about the ECTS system in Europe, see http://ec.europa.eu/education/lifelong-learning-policy/ects_en.htm (accessed 8 July, 2013).

¹⁵³ The members of the task force are representatives from academia, accounting firms, government, and the Danish professional institute.

requirements for becoming a State-authorized auditor. As a result a reform was launched in May 2013. The task force consulted all relevant stakeholders, some of whom expressed the view that there was a need to look at the particular teaching at the four educational institutions that offer the CMA. Some stakeholders suggested that the method of teaching could be strengthened by greater use case-based teaching. However, the educational institutions represented on the Danish Audit Committee are reluctant to make changes in the theoretical training courses and have pointed out that the purpose of the theoretical education is different from that of the practical training (which is a separate requirement in the qualification process). It has therefore been agreed that the theoretical training should be maintained at a high level and thus be based on a research-based approach that is adapted in the frameworks of these master's degree programmes at the respective universities/business schools (see Revisorkommissionen 2012).

This exemplifies the importance of continuous dialogue between respective stakeholders involved in the governance of the process of becoming an auditor.

Master's degree completion rates

Not all candidates who complete the CMA become State-authorized auditors. The number of students annually starting the programme is shown in table IV.5, broken down by institution. Over the years there has been a considerable increase in applications to the programme. However, not all students entering the programme will opt to become State-authorized auditors. In general only about 25 per cent of the graduates choose to train to become auditors. The CMA is an attractive programme as it is appealing to several industries and job functions. It serves as the base education for people who end up as chief financial officers (CFOs), appraisers, consultants, and many other job roles.

Table IV.5

Annual admissions of students at education institutions offering the CMA

Year	CBS	SDU Odense	SDU Kolding	AU	AAU	TOTAL
2005	232	27	84	64	74	481
2006	207	26	95	46	68	442
2007	227	15	79	59	52	432
2008	223	19	71	77	60	450
2009	233	27	98	66	67	491
2010	272	32	74	87	49	514
2011	248	27	87	93	52	507
2012	364	40	90	119	47	660

In 2009 a study was carried out with 1986–2007 auditing graduates from Copenhagen Business School (Østrup and Østrup 2009). The study found that almost 96 per cent of graduates were employed by an audit firm at some point in time in their career, but that in 2009 when the study was undertaken only 38 per cent of the population remained employed in the audit industry. The key professions that the graduates had moved to were:

- Controller (12 per cent)
- Chief of accounts (4 per cent)
- CFO (19 per cent)
- Auditor in the public sector (1 per cent)

It is interesting to note the low percentage of graduates who end up working with accounting and auditing in the public sector. This indicates that the accountants and auditors in the public sector in Denmark have a different university education than the CMA.

Step 3. Practical experience

It is a requirement that a candidate must have practical experience in order to be prepared for and sit the qualifying exams. It is not possible to become a State-authorized auditor without having worked as an accountant in an audit firm in accordance with the Executive Order § 2, No. 3.

The requirement of 3 years of practical experience stems from the eighth European Union Directive. The detailed requirements for the practical training are set out in Article 10 of the eighth Directive and have been implemented in the Danish Audit Act. The purpose of the practical training is to develop the candidate's ability in practice to apply his/her theoretical training.

One of the three years must be after the theoretical training is passed, and the other two years must be within the last three years before sitting the qualifying auditor exams. This means that an auditor candidate who has worked in an approved auditing firm may take the examination one year after completing the CMA.

An auditor candidate who has worked in an approved auditing firm alongside his/her master's studies, but has been out of business for three years, has to build up two new years of practical experience before being able to take the qualifying exams.

Requirements for work

Consistency of practical experience is assured through the specification of tasks that the candidate must undertake. Any auditor candidate must perform tasks relating to the audit of annual accounts, preparing consolidated accounts or similar financial reports. It is the audit firm in which the candidate undertakes the practical training that ensures that the practical experience meets the requirements of the Danish Audit Act. This means that it is not enough for the auditor candidate to have unspecified practical experience. The practical experience is conducted under the supervision of an approved auditor. This means that the assurance of consistency in the practical training lies with the individual auditor candidate and his/her supervisor at the accounting/audit firm.

The Danish Audit Commission has recently discussed whether there is a need to set specific requirements for the practical training, including requirements for supplementary parallel courses. It has, however, been concluded that for now Denmark will remain with the requirement that the practical experience is supervised by a State-authorized auditor.

In addition, as will be described under specialized training, the Danish audit academy is a training programme offered by FSR Danish Auditors, and the Danish Audit Commission considers that this programme (albeit not undertaken by all auditor candidates) does also support consistency of the practical experience.

Step 4. Qualifying examinations

The current qualification examination includes a written and an oral component, which must demonstrate candidates' practical proficiency in the areas falling under the State-authorized auditors' scope, including, for example:

- Engagement acceptance
- Task planning
- Audit execution, statements and reports
- Assessing the accounting systems
- Risk management
- Consolidated financial statements
- Financial analysis
- Going concern problems
- Advice and support for accounting and tax issues
- Funding issues
- Valuations
- Purchase and sale of businesses
- Profitability analysis.

The written exam must be passed before the oral exam can be taken. The notice also states that the exam should be held once a year (Revisorkommissionen 2012). In its current form the exam is a 16-hour written test taken over two days, followed by a half-hour oral exam with 40 minutes of preparation time.

Written examination structure

The written examination consists of three modules, i.e. three separate written examinations, referred to as modules A, B and C. Its aim is to demonstrate candidates' practical competence within the subject tested.

There is no requirement for the three modules to be passed in a certain order. Nevertheless, the written exam is regarded as one exam divided into three independent modules, albeit that a pass or fail grade is provided separately for each of the three modules. The Danish Audit Commission proposes the mandatory use of computer-based written examinations.

Examination module A

The written examination in module A must cover the areas of ethics and independence and should concentrate on the following subject matter: client acceptance, assignment acceptance, reporting on economic crimes, ethics, confidentiality, independence and quality management. The exam lasts 2 hours, as per the Danish Audit Commission report of July 2012.

Examination module B

The written examination in module B must cover the areas of auditing and other statements of accounts and must concentrate on the following subject matter: task planning and execution, issuance of declarations and statements, assessing the accounting systems and internal controls, risk management, financial analysis,

profitability analysis and advice and assistance in connection with the preparation of annual and consolidated accounts.

The candidate's written assignment will include a series of questions to which the candidate must write a reply that is similar to a memo or a statement of practice. The answer must be formulated in a language the layperson can understand, it should be addressed, for example, to the board of a medium-sized company. The exam lasts 6 hours, as per the Danish Audit Commission report of July 2012.

Examination module C

The written examination in module C must cover tax law, company law and commercial law and should concentrate on the following subject matter: firms in difficulty, succession planning, advice and assistance in tax matters, financing, valuations, acquisitions and investment as well as studies in rationalization and administrative organization. The exam lasts 4 hours as per the Danish Audit Commission report of July 2012.

To pass the overall written examination, all three modules must be passed within a period of 4 years. If this period is exceeded, or a module is failed, one or more modules will need to be retaken depending on when they were passed in the first place

There are three opportunities to pass each module and the candidate may make use of three new attempts to pass the module. Candidates may apply for exemption from the Danish Audit Commission for further attempts to pass modules. The current exemption policies are undergoing revision with the aim of making it easier to get an exemption for a fourth attempt.

The three modules in the written examination are held once a year. FSR Danish Auditors have argued in favour of holding the written examinations twice a year. The Danish Audit Commission is open to considering this proposal and will do so over the coming year(s).

Oral examination

Requirements to be set for oral exam

To be recommended for oral examination, the candidate must have passed the written exam, which consists of three modules as described above. The candidate must take the oral exam within 3 years after passing the written test.

Format of the oral examination

The oral examination consists of a single session in which the candidates' practical competence within the areas governed by the Danish Audit Act and applicable standards is tested. The oral examination is graded pass or fail.

At the oral exam, the candidate is given a question and then has 40 minutes to prepare his/her answer. The Danish Audit Commission has proposed that it should be possible for the candidate to bring a computer into the preparation room before the oral exam.

The exam questions for the oral exam must focus on key issues within the auditor's scope of work. An exam guide has been written by the Danish Audit Commission.

There are three opportunities for a candidate to pass the oral examination. Candidates may apply to the Danish Audit Commission for exemption for further attempts to pass the oral exam. The oral exam is held twice a year, once in the first half of the year and once in the second half, as per the proposal for Examination Order § 6 of the Danish Audit Commission.

The exam tests the candidate's ability to present a comprehensive and well-argued statement as well as his/her general knowledge within the subject areas that a State-authorized auditor is expected to be aware of. It is evident from table IV.6 that the biggest challenge for candidates is to pass the written exam. All qualification exams (written and oral) are conducted in the Danish language.

Professional examinations in Denmark are compliant with International Education Standard 6 on Initial Professional Development – Assessment of Professional Competence (Revised)¹⁵⁴.

¹⁵⁴ The standard can be accessed at <http://www.ifac.org/publications-resources/international-education-standard-ies-6-initial-professional-development-asses> (accessed 15 August 2013).

Table IV.6

YEAR	WRITTEN EXAM				ORAL					
	SIGNED UP	PASSED	NOT PASSED	% PASSED	1 ST TIME	RETAKE(S)	TOTAL	PASSED	NOT PASSED	% PASSED
2001	37	15	22	40.5	15	1	16	14	2	87.5
2002	34	12	22	35.3	12	1	13	10	3	76.9
2003	39	20	19	51.3	20	3	23	14	9	60.9
2004	29	15	14	51.7	15	6	21	14	7	66.7
2005	27	10	17	37.0	9	10	19	15	4	78.9
2006	30	12	18	40.0	12	6	18	10	8	55.6
2007	35	14	21	40.0	14	5	19	16	3	84.2
2008	45	15	30	33.3	15	4	19	16	3	84.2
2009	45	27	18	60.0	22	2	24	18	6	75.0
2010	41	21	20	51.1	18	5	23	21	2	91.3
2011	73	40	33	54.8	*38	5	43	33	10	76.7
2012	71	36	35	50.7	**4+36	6	46	38	8	82.6

Overview of pass rates for the qualification examination (Revisorkommissionen 2012)

FSR Danish Auditors Audit Academy

In Denmark specialized training is available for candidates who seek to become State-authorized public auditors: the FSR Danish Auditors Academy (under the auspices of the FSR Danish Auditors). This training can be undertaken as an integral part of the practical training of the qualification process. FSR Danish Auditors Audit Academy is an intensive 3-year course offered by the FSR Danish Auditors. The Academy is a voluntary training programme that accepts candidates that have completed the CMA and are studying towards their final qualifying examinations (see figure IV.1 overview of qualification process).

The course is organized with a practical focus and in order to afford candidates the best possible training leading up to the qualifying exams. The Academy prepares candidates for both the written and the oral examination. The objective of the course is to increase the success rate for the qualifying examinations.

The Audit Academy has been developed in close dialogue with professional accounting/audit firms, the Danish Audit Commission and others. It therefore reflects the requirements of the various stakeholders and has incorporated a modern competency development approach.

The Audit Academy programme consists of (structure of the programme is provided in table IV.7):

- four residential courses (modules I–IV) of 5 days each;
- written exam training course before the final written qualifying examination;
- oral exam training course before the oral qualifying examination;
- an annual written test exam;
- an additional written test exam.

Table IV.7

Overview of the structure of the audit academy programme

YEAR 1	YEAR 2		YEAR 3	
1 ST TERM	2 ND TERM	3 RD TERM	4 TH TERM	5 TH TERM
Introduction	Module II	Module III	Module IV	Examination training for the oral examination
Module I	Written trial examination	Extra trial examination	Trial Examination	
			Extra trial examination	
			Examination training for the written audit and qualification exam	

The individual modules are offered only once each year. If a student is prevented from participating, he/she can enrol in the course the following year. Typically it is the accounting/audit firms who pay for their candidates to participate in the Audit Academy; the entire course costs DKr 140,000 (approximately US\$25,000) per student.

An analysis prepared by FSR Danish Auditors shows that 64 per cent of candidates who take the audit and qualification exam pass (FSR Danish Auditors 2010). This compares with an average pass rate of 39 per cent for students who do not follow the audit academy programme.

Human capacity for public sector accounting

Denmark has been running a separate certification programme (COR) for its public sector accountants working for the Danish National Audit Office. In Denmark the Danish Financial Statements Act (Årsregnskabsloven) is used for the preparation of public sector financial statements. The COR has been run as an independent certification programme provided and managed by the Danish National Audit Office. It is, however, being phased out and the certification exam is being held for the last time in the autumn of 2013. The first certification under COR took place in 2006. Over the years a total of 67 public sector accountants have been certified through the COR programme,

The content of the theoretical training for COR auditors contained¹⁵⁵:

¹⁵⁵ All information about the COR programme, held under the auspices of the Danish National Audit Office, can be found at <http://www.cor-revisor.dk/> (accessed 15 June 2013).

- Public economics
- Public law
- Audit theory
- Public sector accounting and budget theory
- Organization and management in public organizations
- IT governance and IT audit.

The COR culminated in a certification test. There were one or two certification tests per year. The certification test consisted of a written and an oral exam, both of which had to be passed in order to become a certified public accountant.

To ensure a sufficiently high level of theoretical expertise in the subject chosen for inclusion in the COR, an Academic Council was put in place. The Academic Council advised on the professional development of teaching and public audit. The Council would also oversee the programme structure, content and quality and would supervise the COR secretariat with regard to decisions on credit transfer and speaking out on issues of credit transfer.

It is likely that a new and updated version of the COR will be up and running by 2015. In the interim, as of autumn 2013, Copenhagen Business School will teach the equivalent of its audit course that is part of the CMA on site at the Danish National Audit Office. Annex IV.2 provides an overview of the key educational materials used for the audit course.

C. Regulatory framework

Corporate financial reporting in Denmark

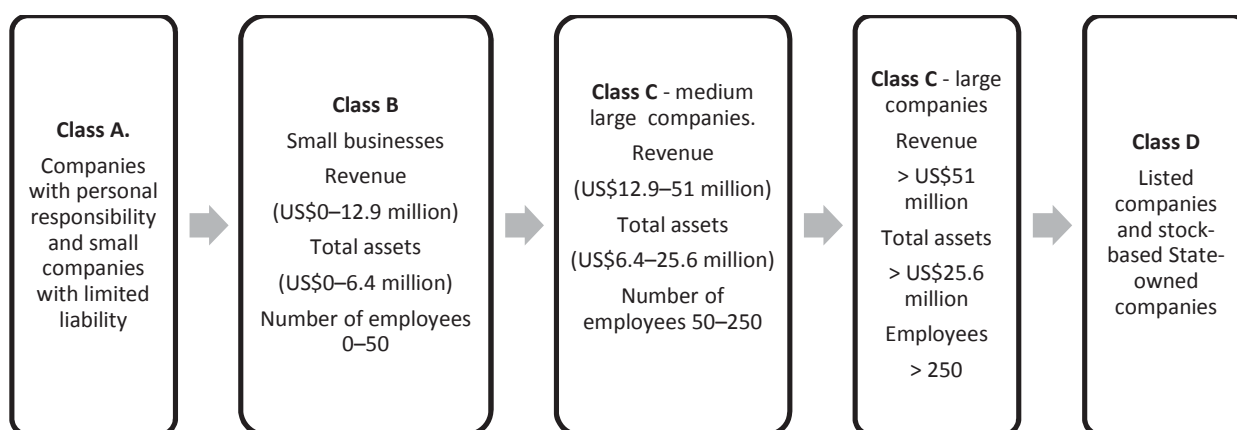
As a member State of the European Union, Denmark is subject to the regulations adopted by the European Union. In Denmark the national accounting regulation framework, the Danish Financial Statements Act (Årsregnskabsloven)¹⁵⁶, which was last updated in 2009, defines five classes of companies based on the size of the company. The Danish Financial Statements Act is based on the 4th and 7th European Union Accounting Directives¹⁵⁷.

The accounting requirements follow the classification shown in figure IV.2. As an underlying principle, the larger the firm is the more complex the accounting requirements the firm has to satisfy.

¹⁵⁶ The law with its references can be accessed at <https://www.retsinformation.dk/Forms/r0710.aspx?id=136726> (in Danish; accessed 18 June 2013).

¹⁵⁷ The 4th and 7th European Union Accounting Directives can be accessed at http://ec.europa.eu/internal_market/accounting/officialdocs_en.htm (accessed 1 June 2013).

Figure IV.2

Danish company classification for accounting requirements

In terms of accounting regulations, the European Union adopted the International Accounting Standards Regulation in June 2002 (Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002).¹⁵⁸

This European Union regulation requires European companies listed in an European Union securities market, including banks and insurance companies, to prepare their consolidated financial statements in accordance with International Accounting Standards (IAS)/IFRSs, starting with financial statements for financial year 2005 onwards. It should be noted that in addition to the IFRS/IAS framework the European Union has endorsed interpretations of these standards that are available for the use and application of member States.¹⁵⁹ Consequently, Danish companies listed in a European Union/European Economic Area (EEA) securities market have followed IFRSs since 2005 (cf. class D in figure IV.2).

Under the European Union regulative framework, European Union member States have the option to:

- Require or permit IFRSs for unlisted companies
- Require or permit IFRSs in parent company (unconsolidated) financial statements.

Listed companies

Since 2009, Denmark has eliminated the requirement for listed companies to apply IFRS in their separate financial statements. Listed non-group companies are still required to prepare their financial statements in accordance with IFRS as from 2009. In September 2011, the European Commission published a report with an update on the extent to which certain options included within the Accounting Directives had been

¹⁵⁸ http://ec.europa.eu/internal_market/accounting/legal_framework/ias_regulation/index_en.htm (accessed 21 June 2013).

¹⁵⁹ http://ec.europa.eu/internal_market/accounting/legal_framework/regulations_adopting_ias_text_en.htm (accessed 21 June 2013).

incorporated into the law of the member States and EEA countries¹⁶⁰. Unlisted companies are not required to prepare IFRS financial statements but rather follow the Danish national accounting framework.

In terms of how the auditor should refer to IFRS/IAS¹⁶¹ in the audit report, the European Commission has adopted the following wording for use in the notes to the accounts and in the audit reports of companies subject to European Union Regulation 1606/2002/EC:

- ‘in accordance with International Financial Reporting Standards as adopted by the European Union’; or
- ‘in accordance with IFRSs as adopted by the European Union’.

In the previous section we concluded that listed companies (class D in figure IV.2) apply IFRS as adopted for use in the European Union. However, the accounting requirements for the other classes of companies (A–C in figure IV.2) follow different regulations in the preparation of their accounts and financial statements¹⁶².

Class A companies

There is no requirement for companies in class A to prepare financial statements for other stakeholders than the tax authorities. This means that companies in class A typically only prepare financial statements following fiscal principles. All Danish companies, including class A companies have to comply with the Danish bookkeeping Act¹⁶³. The bookkeeping act is the law that provides guidelines for the posting and accounting of business transactions. It also prescribes how to register support documentation for transactions.

Class B and C companies

Until 2013 the FSR Danish Auditors offered two sets of non-mandatory guidelines for class B and class C companies. They had the option of following either the accounting standard for small companies issued by the FSR Danish Auditors in 2007 (class B companies) or the suite of Danish Accounting Standards number 1-22 (class B and C companies) if they did not choose to follow the Danish Financial Statements Act alone.

¹⁶⁰ The report can be accessed via http://ec.europa.eu/internal_market/accounting/docs/2010-options_en.pdf (accessed 15 June 2013).

¹⁶¹ International Accounting Standards were published by the International Accounting Standards Committee between 1973 and 2001. The IFRS are published by the International Accounting Standards Board (IASB), starting from 2001. When the IASB was established in 2001, it was agreed to adopt all IAS standards, and name future standards IFRS.

¹⁶² It should be noted that model illustrated in this paper is the basis for Danish accounting regulation; however, the European Commission has also published a definition of SMEs. The European Union definition of SME can be accessed at <http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/sme-definition/> (accessed 10 Aug. 2013)..

¹⁶³ The bookkeeping act is available here <https://www.retsinformation.dk/forms/r0710.aspx?id=27298> (accessed 1 Sep. 2013).

The Danish Accounting Standards were based on IAS but have not been updated since 2002 since the application of IFRSs became mandatory for listed companies in Europe in 2005.

Small and medium-sized enterprises

In an effort to modernize accounting for small and medium-sized entities (SMEs) and to inspire the preparation of informative and relevant financial statements, the Accounting Technical Committee of FSR Danish Auditors has published a new accounting standard in 2013 replacing guidelines issued in 2007.

The accounting standard for small companies is based on the Danish Financial Statements Act but adapted to SMEs' needs. The new, single standard issued in mid-April 2013¹⁶⁴, embodies present-day accounting thinking for smaller entities as, for example, reflected in the IFRS for SMEs¹⁶⁵. It is to be understood as accounting guidance for issues not covered by or explained in detail in the Act and as inspiration for preparing good informative financial statements. Going forward, B and C class companies in Denmark will have the following options:

- To draw up their financial statements based on the Danish Financial Statements Act alone;
- To draw up their financial statements based on the Danish Financial Statements Act but also apply the new accounting standard for class B and C companies to ensure informative and relevant financial reporting;
- To follow full IFRSs.

The issue of accounting for SMEs is being debated not only in Denmark but also within the European Union¹⁶⁶ as a whole. For example, in the United Kingdom, the Financial Reporting Council (FRC) issued in March 2013 Financial Reporting Standard (FRS) 102¹⁶⁷ which is based on the IFRS for SMEs and applies to the financial statements of entities that are not applying European Union-adopted IFRS, FRS 101¹⁶⁸ or the Financial Reporting Standard for Smaller Entities (FRSSE, will become effective January 2015).

At the European Union level the process of revising the Accounting Directives has been completed, in an effort to simplify and unify accounting requirements for SMEs, and so-called micro-entities in particular.¹⁶⁹ Agreement has been reached, although details of

¹⁶⁴ The new accounting standard comes into force with financial statements for reporting periods starting on or after 1 January 2013.

¹⁶⁵ For more information and the content of IFRS for SMEs see <http://www.ifrs.org/ifrs-for-smes/Pages/ifrs-for-smes.aspx> (accessed 1 June 2013).

¹⁶⁶ The European Union definition of SME can be accessed at <http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/sme-definition/> (accessed 10 Aug. 2013).

¹⁶⁷ The full standard can be accessed at <http://www.frc.org.uk/Our-Work/Publications/Accounting-and-Reporting-Policy/FRS-102-The-Financial-Reporting-Standard-applicabl.aspx> (accessed 1 June 2013).

¹⁶⁸ UK FRS 101 Reduced Disclosure Framework (cf. FRS 102).

¹⁶⁹ The Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR) has also worked on providing solutions for SMEs in the area of financial reporting and accounting. At its 17th session in July 2000, the ISAR identified a number of difficulties that SMEs were facing in applying accounting standards that

the changes have not yet been communicated. In conjunction with the revision of the European Union Accounting Directives there have also been calls to allow the application of the IFRS for SMEs in member States that wished to do so; however, as the IFRS for SMEs conflicts with certain provisions of the 7th Accounting Directive, this has not come to pass.

In Danish audit practice, auditors and audit firms are governed by national legislation in the form of the Danish Audit Act of 2008. In providing the audit function the auditor needs to work under and comply with a complex hierarchy of regulations and rules. In Denmark the rules and frameworks that apply to auditors have been substantially changed since the 1980s. For example (FSR Danish Auditors, 2010):

- In the past 10 years, the number of audit standards has more than doubled;
- The Danish Financial Statements Act has been amended 29 times in the past 20 years;
- IFRS/IAS as adopted by the European Union became mandatory in 2005 for listed companies;
- There are three times as many Parliamentary rules today as there were 30 years ago, including extensive industry regulation of financial services, agriculture etc.;
- Tax laws are far more extensive and detailed than 20 years ago – assessment guidelines have grown from 1517 to 3550 pages the last 20 years;
- Numerous European Union rules on accounting, grant schemes and frameworks have come to drive and influence the scope of business and thus also the scope of the audit work involved.

It can thus be concluded that the already heavy regulatory framework under which auditors and audit firms are operating is constantly changing, placing increasing demands on both auditors and firms. Alongside the growing complexity of both accounting and audit regulations, numerous initiatives have been taken to tighten the quality control of the audit industry.

Accountants and State-authorized auditors traditionally offer a wide number of other services to their clients, including (1) the provision of the legally required audit function and (2) the provision of professional accounting (and other) services¹⁷⁰. The auditor in his/her capacity of providing the legally required audit function acts as a representative of the public and as such there are stringent requirements on the governance

had been issued by various standard-setting bodies, both national and international. In response, the ISAR developed guidance materials for accounting by SMEs on three levels (SMEGA guidelines, levels 1–3). The reference materials and guidelines can be accessed via <http://unctad.org/en/Pages/DIAE/ISAR/Accounting-by-Small-and-Medium-sized-Enterprises.aspx> (accessed 15 June 2013).

¹⁷⁰ This paper will not discuss the complexities inherent in the duality of roles (services provided) played by the professional accountant in society. This complexity is discussed at length in reports on the maintenance of auditors' independence.

of auditors' and professional accountants' competence. In order to carry out audits a broad knowledge of business, accounting and tax and so on is required.

1. Audit regulatory framework

The European Union Fourth Council Directive (78/660/EEC) sets out the legislative provisions for member States in respect of annual accounts of certain types of companies. The Directive stipulates that annual accounts of companies must be audited. Nevertheless, the Directive also provides that member States may exempt those companies from audit. The criteria for audit exemption are as follows:

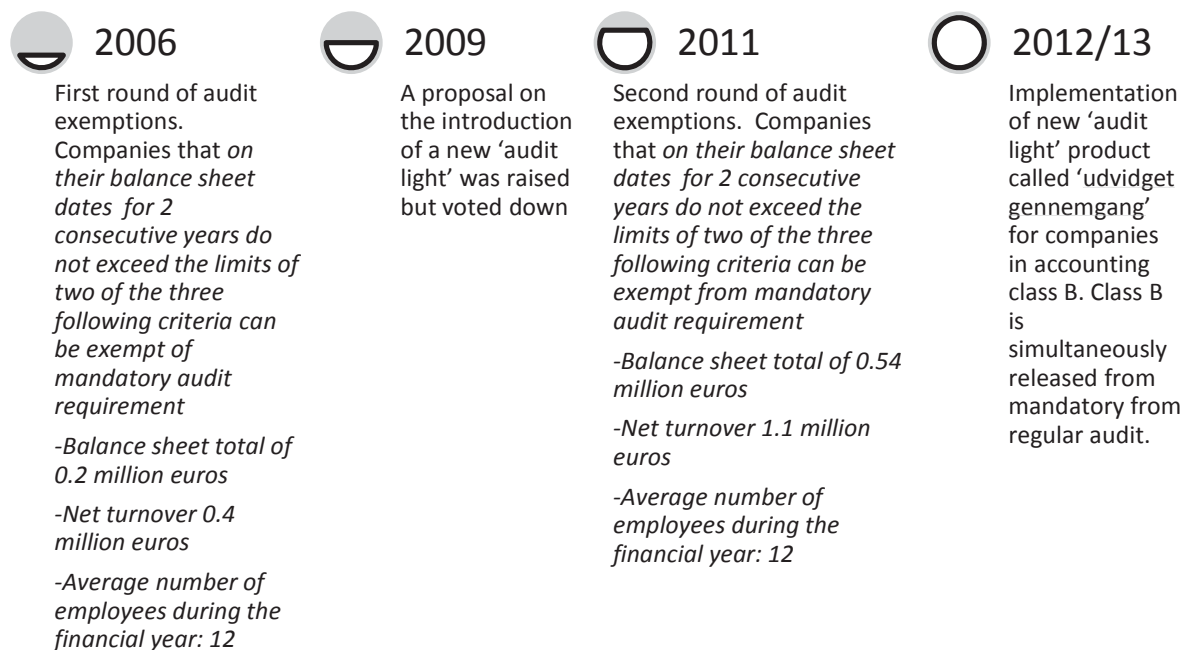
“The Member States may permit companies which on their balance sheet dates do not exceed the limits of two of the three following criteria:

- balance sheet total: EUR 4 400 000
- net turnover: EUR 8 800 000
- average number of employees during the financial year: 50.”

The granting by member States of the concession of audit exemption to companies is discretionary. Denmark granted its first exemption in 2006 (see figure IV.3). By comparing the data on audit exemption in figure IV.3 Denmark has not utilized the full thresholds granted by the European Union for audit exemptions.

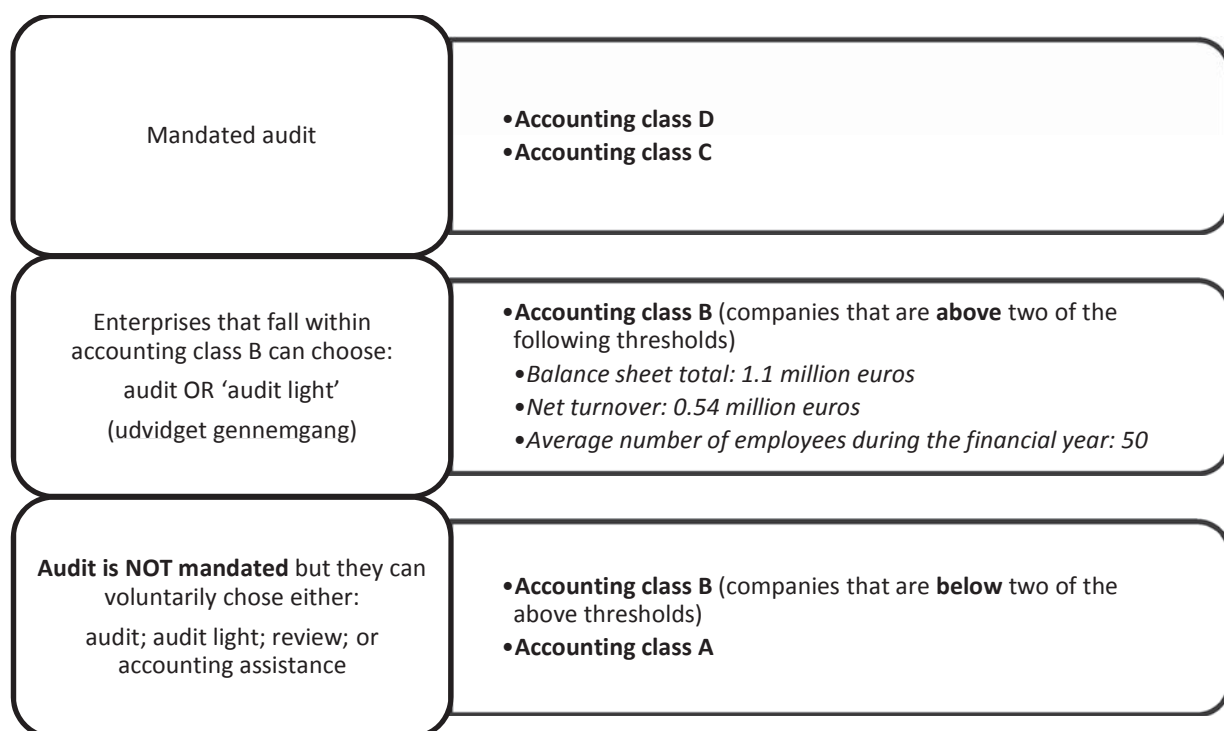
Figure IV.3

Denmark's utilization of European Union fourth Council Directive (78/660/EEC) audit exemption thresholds



In 2013 the Danish Government implemented a third round of audit exemptions. This time, though, Denmark chose not to fully exempt, but to provide the opportunity for large companies in accounting class B to choose between having their accounts audited and undergoing a modified form of audit ('audit-light'). The latter is a new product that has been developed in Denmark and is available for financial reports with a financial year starting 1 January 2013 onwards. Figure IV.4 illustrates the mandated audit requirements in Denmark.

Figure IV.4
Audit requirements in Denmark by accounting class



It is too early to deliberate on the effects of the new audit exemption and the introduction of 'audit light'. Conceptually, though, as the mandated requirements for full audit become exempted the country's dependence on the production of auditors for the specific purpose of carrying out audits should, with time, be slightly reduced. Nevertheless, if companies start opting for the new 'audit light' product then the effect on the demand for auditors may be minimal as the 'audit-light' also only has to be signed off by a State-authorized auditor.

Table IV.8

Distribution of number of companies by accounting class (Aktivitetsbaseret Måling af Virksomhedernes Administrative Byrder (AMVAB) database 2009)

Accounting class	Number of companies
Accounting class B	216 735
Accounting class C – medium	8 809
Accounting class C – large	5 677
Accounting class D	279

2. Rules applicable to professionals

The work of the auditor is characterized by professional scepticism,¹⁷¹ while at the same time adhering to the requirements of applicable accounting standards, auditing standards, independence and a code of ethics. The regulatory framework and the audit standards are constantly changing, and this places increased demands on auditors in Denmark as elsewhere. During the last decade, the number of audit standards and guidelines has more than doubled. At the same time we have witnessed a tightening of the quality control of the audit industry. The result of these developments is that the basis for accountants'¹⁷² and State-authorized public auditors' professional knowledge has become increasingly complex.

As a member of the European Union, Denmark has implemented the 8th Company Law Directive in the Danish Audit Act No. 468. The following hierarchy of rules is applicable to audit professionals in Denmark. For audit practice Danish auditors apply International Standards of Auditing (ISA), which are translated into Danish, and the Danish Law on the Audit Statement ('Erklæringsbekendtgørelsen').

Danish audit and assurance engagements have, since 2000, been carried out in compliance with the ISAs, the ISREs, the ISAEs and the ISRSs and additional Danish requirements¹⁷³ according to Danish audit legislation when such requirements exceed the requirements according to the IAASBs of IFACs standards. The clarified audit standards became effective for audits of annual reports with a balance sheet date of 15 December 2010 or later.

¹⁷¹ Professional skepticism is called for in International Standard on Auditing (ISA) 200 on the Overall objectives of the independent auditor and the conduct of an audit in accordance with international standards on auditing. It is defined as "An attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of audit evidence".

¹⁷² In particular, for accountants who prepare the accounts of listed companies that follow International Financial Reporting Standards (IFRS).

¹⁷³ Please see Holm and Warming-Rasmussen (2004) for an overview of Danish audit regulation.

3. Certification as a measure for quality control for all actors

A public register is maintained of all State-authorized auditors in Denmark by Revireg¹⁷⁴ which is hosted and maintained by the Danish Commerce and Companies Agency. Revireg is a new online audit register. In Revireg all companies register themselves if they operate as a chartered and registered accounting firm and make audit statements. Revireg contains information about companies, their branches and where in the company the individual State-authorized auditors are employed¹⁷⁵. Revireg contains the following information for auditors approved by the Danish Audit Act:

- (a) The auditor's name, professional title, address and registration number
- (b) Name, address, website (URL) and registration number of the person or audit firm(s) the auditor may be employed by or is otherwise associated with
- (c) Any registration as auditor with foreign authorities
- (d) Continuing professional development.

It is the individual auditor's responsibility to ensure the accuracy of the information in the Revireg register. Registrations must be made electronically with digital signature.

Audit firms and related accountants must also be registered with Revireg before they can carry out assurance engagements that are subject to the Audit Act. Conversely, this means that auditors cannot make statements nor audit if they are not associated with an audit firm that is registered with Revireg.

4. Continuing professional development

The required CPD for State-authorized auditors in Denmark is implemented in the Danish Audit Act § 4, which states that a qualified auditor should attend an appropriate post-qualification training programme. The Danish Commerce and Companies Agency has issued a decree on compulsory training for qualified auditors. It states, among other things, that a qualified auditor must undergo at least 120 hours of continuing education within a fixed period of 3 years. The CPD requirements are defined as detailed in table IV.9.

¹⁷⁴ See www.revireg.dk (accessed 2 August 2013).

¹⁷⁵ One can access additional information about ReviReg here; <https://webreg.dk/revireg/main/welcome> (accessed 1 Sep. 2013).

Table IV.9
Overview of CPD requirements

Hours	Subject Area
24	Auditing and audit statements, including legal requirements and professional standards relating to statutory audit and statutory auditors, national and international standards on auditing, risk management and internal control, professional ethics, independence as well as CSR and performance audits.
24	Legal requirements and standards for the preparation of annual and consolidated accounts, general accounting theory and principles of international accounting standards, financial statement analysis, cost accounting, financial and management accounting and corporate law.
12	Tax law

The remaining 60 hours shall relate to the disciplines in the above table but can be selected freely by the qualified auditor. If the auditor specializes in one of the above disciplines, at least 30 of the 60 hours shall relate to this discipline. Additional training may take place through participation in courses and conferences, specialist, technical committee work, teaching and lecturing, examiner and external examiner and literary activities. Also e-learning or similar IT-based teaching qualifies as continuing education, if the required academic level and duration can be documented.

It is up to the individual auditor to certify via Revireg that continuing education requirements are being met. Approval as an auditor may be withdrawn if training requirements are not met. In addition, there is an amendment underway¹⁷⁶ that will require qualified auditors who audit financial institutions to take an additional 60 hours of continuing education, within the same time period as above.

Courses at an appropriate academic level (master's level) are approved for CPD. FSR Danish Auditors is to facilitate CPD courses. Their course programme is available on their website in order to allow auditors easy access and overview of what courses that are available and when.

Accreditation mechanisms for CPD providers

As yet there is no specific accreditation mechanism for CPD providers. However, as explained above, each course or other educational activity is reviewed for its quality and only if approved will it count as CPD. It is the Danish and Commerce Agency that reviews CPD to ensure that it is at an appropriate academic level. This review can take place either before CPD is undertaken by a State-authorized auditor or after the CPD has been completed. If it is done after completion of training then there is a risk that it is not approved as CPD.

¹⁷⁶ No specific timeline has been defined as yet.

CPD enforcement

It is the responsibility of any qualified auditor to keep track of whether they have taken the CPD training courses they need. FSR Danish Auditors do, however, offer voluntary assistance to support auditors in putting together a programme. Each qualified auditor must at the end of each three-year period report his/her continuing education hours to the Danish Commerce and Companies Agency by 1 April the following year. The candidate is allowed to be in "deficit" by a maximum of 40 hours. If a candidate does have a CPD deficit then the Danish Commerce and Companies Agency will set a deadline for the shortfall to be met. The auditor will lose his/her qualification if he/she does not meet the requirements for mandatory CPD.

To verify the quality of the CPD the Danish Commerce and Companies Agency has implemented sampling of documentation of CPD training. At 31 December 2011 Denmark completed its first three-year cycle of mandatory CPD (Revisorkommissionen, 2012)¹⁷⁷. The sampling and quality control is then carried out by the Danish Oversight Institute. The sampling of 2011 included CPD quality control of 181 audit companies and 483 audits. Early results of the reviews of the materials sampled indicated that 13 cases of non-compliance have been sent to the Danish Commerce and Companies Agency.

D. Institutional framework

In Denmark a number of regulatory entities and a professional association have clearly outlined mandates in the process of governing the competence for the State-authorized auditors. This means that a number of stakeholders are represented, involved and consulted for the purpose of governing the regulation of the process of becoming a State-authorized auditor in Denmark. The qualifying examination and CPD are a responsibility that is mandated to the Danish Commerce and Companies Agency through Danish audit legislation (see below). The following is an outline of the institutions and entities that have designated roles for regulating and implementing professional accounting education in Denmark. To allow for a structured presentation of these bodies they have been clustered into four key groups: 1) governmental regulatory institutions, 2) regional regulatory institution, 3) private standard-setters and professional accounting associations (non-governmental) and 4) universities.

Governmental regulatory institutions

The Danish Audit Commission

The Danish Commerce and Companies Agency is authorized to establish the Danish Audit Commission and their work mandate. It is the Danish Audit Commission that runs the qualifying examinations for Danish State-authorized auditors. To assist with the examination the Danish Audit Commission has an established 'Examination Commission'. The rules regarding the exam are laid down in the Danish Audit Act and supported by the

¹⁷⁷ To gain further insight see <http://revisortilsynet.dk/> (accessed 8 August 2013).

Danish Commerce and Companies Agency. The Danish Audit Commission acts in an advisory capacity for the Danish Commerce and Companies Agency on all issues concerning the governance of auditors' competence and more specifically the governance of the examination.

Danish Oversight Institute

The Danish Commerce and Companies Agency is authorized to establish the Danish Oversight Institute. The key role of the Oversight Institute, which was established in 2008, is its capacity and mandate to ensure quality control of audit practice in Denmark. The Danish Audit Act sets out the mandate of the Danish Oversight Institute.

Danish Audit Board

The Danish Commerce and Companies Agency is authorized to establish the Danish Audit Board. The Danish Audit Board is mandated to deal with complaints that may emerge about audit practitioners and practices. Examples include complaints about fees, complaints about audit firms not complying with the required standards, and complaints about lack of independence.

Regional regulatory institution

European Union and European Commission

The 8th Company Law Directive on statutory audit allows the European Commission to adopt international auditing standards for application by European Union member States. Audits of annual accounts or consolidated accounts required under European Union law are to be carried out in accordance with these standards. The 8th Directive governs both auditors' work and education. The European Union regulations have been embedded in the Danish Audit Act.

There are three organizations at the European and international level in which Denmark is represented by the Danish Commerce and Companies Agency: the Audit Regulatory Committee (AuRC) which advises and assists the European Commission with European Union audit legislation; the European Group of Auditors' Oversight Bodies (EGAOB) which coordinates the oversight of auditors and audit firms within the European Union; and the IFIAR.

Professional and private standard setting organizations (non-governmental)

IFAC

The international association for the profession, the International Federation of Accountants (IFAC) sets International Standards for Auditing (ISA), issues the Handbook on the Code of Ethics as well as International Education Standards (IES) on auditor education, practical experience requirements and examinations.

FSR Danish Auditors

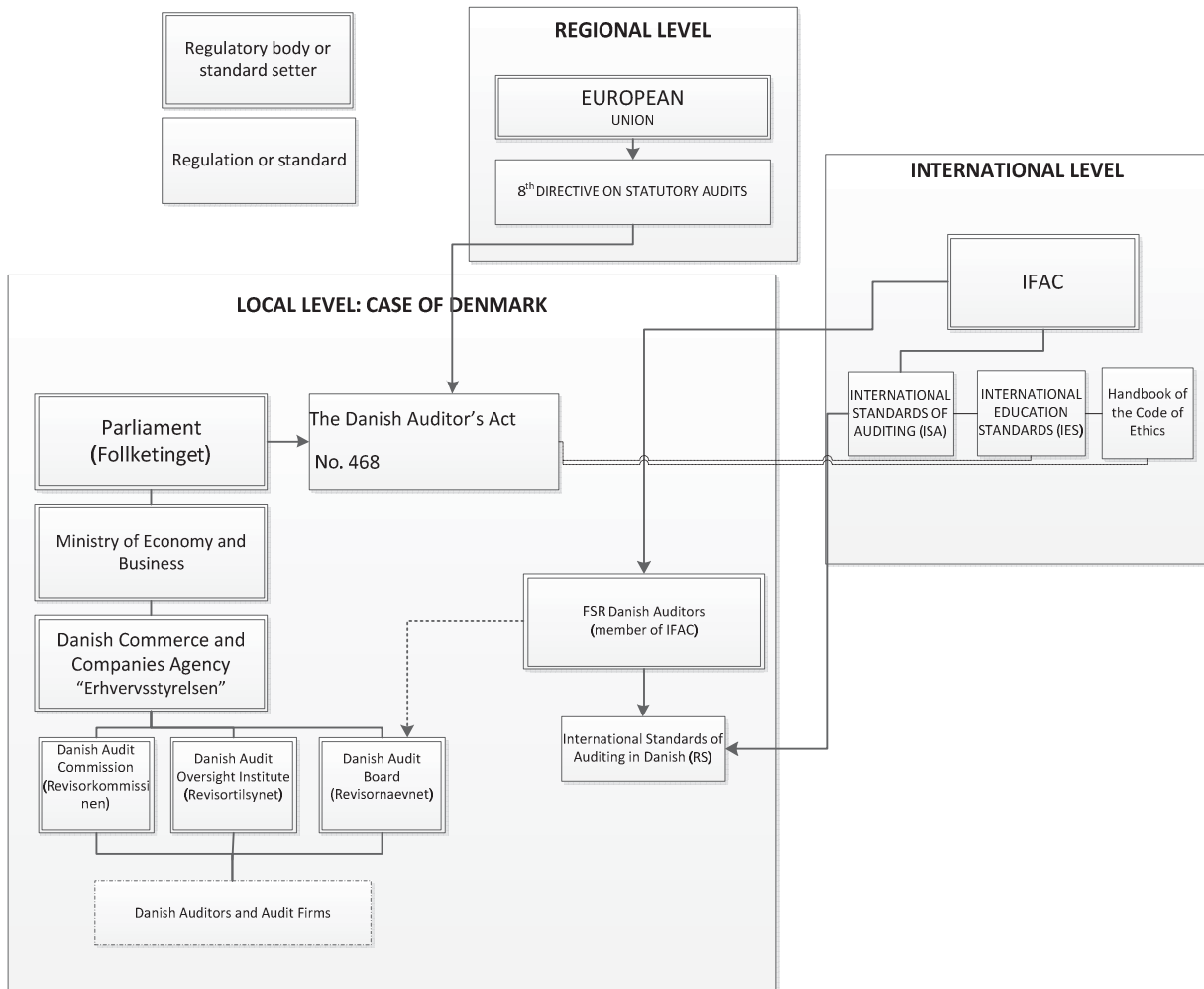
FSR Danish Auditors is the Danish institute for professional accountants. It is a member of IFAC. Members of IFAC are required to follow the standards issued by the respective IFAC standard-setting boards. The FSR Danish Auditors issues the ISA in Danish for use by the Danish audit profession. Danish auditors are required to follow the standards issued by the FSR Danish Auditors unless there is national legislation that regulates any conditions given in any of the standards.

FSR Danish Auditors is the professional body that oversees the audit profession in Denmark. Candidates to enter the profession are required to hold a master's degree, complete 3 years of practical training and pass the final examination of professional competence.

Figure IV.5 illustrates the high-level regulatory network that governs audit practice and the audit profession in Denmark.

Figure IV.5

Overview of the regulators/standard-setters and regulations/standards that govern auditors and the audit profession in Denmark



Coordination

Exchange of information and process for interaction

The exchange of information and process for interaction are primarily governed by the Danish Commerce and Companies Agency and its three designated audit bodies (see figure IV.5) and through the FSR Danish Auditors.

The legal mandate to regulate the audit profession and its practice rests with the Danish Commerce and Companies Agency (cf. Danish Audit Act of 2008). The professional association, FSR Danish Auditors, interacts with and coordinates with the

Danish Commerce and Companies Agency when new requirements emerge both at the European Union level and through IFAC.

FSR Danish Auditors follow developments in IFACs standards, where FSR Danish Auditors as an IFAC member Body are obliged to apply these standards for Danish authorized auditors. FSR Danish Auditors therefore continuously inform the Danish Commerce and Companies Agency if there are requirements for updates in the Danish regulatory framework.

An authorized auditor in Denmark does not have to be a member of FSR Danish Auditors in order to practice his/her profession.

Cooperation between professional accounting firms, FSR Danish Auditor and the educational institutions

The educational institutions (the universities), the PAO (FSR Danish Auditors) and professional accounting firms meet regularly to discuss the educational requirements of the State-authorized auditors in Denmark. This cooperation is necessitated by the fact that the CMA has traditionally been a mandated part of the qualification process. To date there are no coordination difficulties at the country level.

In addition, there is cooperation between the universities and the Danish Commerce and Companies Agency. The universities and FSR Danish Auditors have an essential role in advising the Danish Commerce and Companies Agency on new international or regional regulatory requirements or other developments in the field of accounting and auditing. It is also their role to advise on solutions and assist in their implementation. Thus the universities work closely with the relevant ministries and other public institutions. The objective is for research-based knowledge to be disseminated across the regulatory actors in Denmark.

Governmental institutions and professional accounting organizations

The Danish Ministry of Science does not directly work or coordinate educational activities with the professional accounting organization in Denmark. However, following the Bologna process they would, if required, interact in order to address the need for accounting and audit education programmes in the labour market. Any requirements of coordination between the Ministry of Science and the professional accounting organization would be managed through the Danish Commerce and Companies Agency, which holds the mandate to regulate the entry, and as such the theoretical education, of authorized auditors in Denmark.

The Danish Ministry of Science, Technology and Innovation (Ministry of Science for short) is responsible for universities and thus develops the framework for the programmes offered at the Danish educational institutions. Denmark is participating, through the Ministry of Science, in the international cooperation, the Bologna process, which began in 1999.

The work involves an objective to strengthen the common European area of higher education. This is realized through increased transparency of education systems, mutual

recognition of qualifications and quality assurance of education. The aim of the Bologna Declaration is to achieve a number of objectives; two of the key objectives are the development of a harmonized two-tier degree system (bachelor's and master's level) and the development of quality assurance. The Ministry of Science in Denmark has consequently issued an Educational Decree, which regulates undergraduate and graduate programmes, including objectives, and admission requirements, which is in line with the vision of the Bologna Declaration.

The objective of quality assurance, as per the Bologna Process, is implemented through a method of accreditation exercised by external quality assurance agencies. All programmes offered at Danish educational institutions must be approved through a so-called accreditation process. An accreditation Council, upon application for approval, makes an assessment of the institution's bachelor's and master's degrees (or other programmes) for a given period. The accreditation process includes an assessment of whether the quality and relevance of the programme are consistent with five key criteria:

- Need for the education programme in the labour market
- Research-based education
- The academic profile and educational objectives
- Structure and organization
- Continuous internal quality assurance of training.

Universities with different model curriculums

As illustrated in the section on entry requirements to the professional accounting education system, there are differences in the model curricula applied by universities in Denmark.

The overall programme of quality assurance of theoretical courses offered at Danish educational institutions provides the Danish Commerce and Companies Agency the quality assurance of the bachelor's and master's degrees that constitute required components of the process of becoming a State-authorized auditor in Denmark.

Bachelor's degree level

The Danish Commerce and Companies Agency maintains a list of bachelor's degree programmes offered in Denmark that give access to the CMA.

Master's degree level

The 8th European Union Directive states that for a person to be recognized as an auditor theoretical training is required. However, it does not go into detail. It is thus left to the individual member States to put together the theoretical training. The Ministry of Science in Denmark has issued an Educational Decree that sets the overall framework for education at Danish educational institutions. It is thus left to the individual educational

institutions to put together the details of the theoretical training for the CMA. See table IV.4 for a comparison of the structure of the CMA offered at the four educational institutions in Denmark.

As illustrated in table IV.4, there are some minor differences in the educational institutions' structures for the CMA. However, to date this has not given rise to quality discrepancies in the preparation of candidates for their qualifying examinations.

Funding and sustainability of key institutions

The regulatory institutions that fall under the Danish Commerce and Companies Agency are publicly financed.

FSR Danish Auditors

Until 2011 there were three professional accounting organizations in Denmark. In May 2011 these merged into one, FSR Danish Auditors, whose members are Danish authorized auditors¹⁷⁸. The organization is funded entirely by membership fees and professional activities. The merger of the three organizations was costly and in 2011 the financial statements of FSR Danish Auditors showed a net loss of DKr 15.3 million (US\$2.7 million). Nevertheless, no concerns have been raised to date regarding the future financial sustainability of the new organization.

Universities providing the master's degree in auditing

Universities in Denmark are largely publicly financed. Danish students can take higher education courses free of charge.

E. Issues regarding integration of international requirements in the national system

Challenges faced in the implementation of IES

One of the key challenges in implementing the IES in Denmark has been the introduction of the mandated requirement for CPD. The CPD requirement was implemented in Danish legislation in 2008, in the reformed Danish Audit Act. The reason for CPD being a challenge was that this was the largest change triggered by the implementation of IES. Most other requirements stipulated in the IES were already in place in Denmark.

As described in the section on CPD, every qualified auditor must at the end of each three-year period report his/her continuing education hours to the Danish Commerce and Companies Agency by 1 April the following year. The auditor will lose his/her qualification if he/she does not meet the requirements for mandatory CPD. At 31 December 2011 Denmark completed its first three-year cycle of mandatory CPD.

¹⁷⁸ The merger was finalized as a result of Denmark phasing out its previous system of a two-tier audit profession (the authorized auditor at the higher level and the approved auditor at the lower level) retaining only the authorized auditor.

Managing this process still new to the regulatory actors and the auditors in Denmark, and there may be challenges arising from it if the Danish Commerce and Companies Agency finds cases of CPD non-compliance. Naturally, it is not in the interest of the Danish Commerce and Companies Agency to reduce the number of State-authorized auditors due to CPD non-compliance.

Another challenge is that since the audit profession in Denmark is regulated through national legislation (the Danish Audit Act), this in itself is a lengthy and at times challenging process.

Lack of knowledge of international standards and practices

As described in the accounting regulation section, it is only the listed companies in Denmark that apply IFRS/ISA for their financial statements. The size of the Danish stock market is modest which means that the largest proportion of accountants in Denmark works within the national accounting legislation, rather than IFRS/ISA. All universities providing the CMA and the master's in accounting and finance provide graduates with courses in IFRS/ISA as well as the Danish Financial Statements Act (Årsregnskabsloven). This means that the master's level courses at the Danish universities and business schools provide a sufficient supply of candidates with theoretical training in IFRS/ISA and the Danish Financial Statements Act.

The same applies to ISA training; however, this only takes place on CMA courses (and not on courses limited to accounting and finance). In addition, knowledge of the international standards required for professional competence and the qualifying examinations is reinforced through the Audit Academy programme and frequently also through the internal training programmes of professional accounting/audit firms.

The area, though, where Denmark is working on strengthening its education, in particular post-qualification, is training and education on the Code of Ethics (see below).

Challenges in relation to the globalization of corporate reporting

One of the more recent developments was the adoption of the clarified ISA effective for audits of financial statements for accounting periods starting on or after 15 December 2010. In Denmark all auditing standards issued in the clarity project Committee of IFAC¹⁷⁹ were translated into Danish, and reviews of translations were carried out (FSR Danish Auditor (2012) IFAC Compliance Self-Assessment Questionnaire). No particular challenges were reported with regard to this process.

Shortage of professional accountants/auditors

With increasing numbers of candidates attracted to the CMA there is currently no documented concern over the lack of authorized auditors in Denmark (Revisorkommissionen, 2012). The very recent reform of the entry requirements to the

¹⁷⁹ To read more about the clarity project visit this site; <http://www.ifac.org/auditing-assurance/clarity-center> (accessed 15 August 2013).

profession, which will allow candidates with master's degrees other than the CMA to enter the qualification process, granted that they substitute their underlying degree with required courses in accounting, auditing, tax law and business law. It is hoped that this change will encourage those who after having finished their master's degree decide to enter the qualification process. This was not possible prior to May 2013 as such candidates would have to undertake the entire CMA.

There is currently no documented lack of accountants and auditors for the public sector. However, discussions are on-going about strengthening human capacity at the European level in public sector accounting in preparation for the adoption of European Public Sector Accounting Standards (EPSAS)¹⁸⁰. EPSAS will require full accrual accounting in the public sector which would in a number of European Union member States place new competency requirements on public sector accountants and auditors (see also Aggestam-Pontoppidan, 2013), in particular in countries that currently apply cash accounting in the public sector.

Determination of an adequate number of accountants

In Denmark the key concern has been to ensure a consistent flow of candidates who have passed the exam to become authorized auditors. This, as has been illustrated in this paper, is a lengthy and challenging process.

As there is no need for a professional designation to practise as an accountant the supply of candidates for this field of work is met through the annual output of university graduates with degrees in accounting and finance.

The recent changes in audit regulation introduced in March 2013 (described in the section on audit regulation) that release companies in accounting class B from mandatory audit are expected to reduce the number of audits in this segment of companies by 25 per cent. This is expected to have an influence on the required number of authorized auditors needed in Danish society to meet the demand for mandated audit requirements.

As described, a new audit declaration has been introduced, the so-called 'audit-light'. Only State-authorized auditors will be permitted to carry out such an audit. It is as yet too early to say how widely used the modified audit will be in accounting class B.

Code of Ethics

The Code of Ethics as published by IFAC is implemented in Denmark. The FSR Danish Auditors have an established Ethics Committee under the auspices of the Board of FSR Danish Auditors. It is composed of up to seven members, whose key role to initiate a debate among the members or appropriate stakeholders with regard to specific as well as general ethical issues of relevance to authorized auditors. The Ethics Committee has issued guidelines which are based on the Danish Audit Act and meet the requirements of the "Code of Ethics for Professional Accountants" issued by IFAC. Before guidelines are

¹⁸⁰ To read more about these developments see

<http://epp.eurostat.ec.europa.eu/portal/page/portal/conferences/introduction/2013/epsas> (last accessed 15 July 2013)

formally issued by the Ethics Committee, they are submitted for consultation to members (both firms and individuals) for a period of at least 3 months. The Ethics Committee is entitled at its discretion to submit draft guidelines or amendments for the opinion of other interest groups. After the consultation period and possible revisions to the guidelines they are adopted by the Committee. Adoption requires approval by at least two-thirds of its members. The rules come into force as soon as they are adopted and are distributed to members.

The Ethics Committee is mandated to keep abreast of international developments within the overall area of ethics. They are specifically tasked to:

- Initiate public debate on ethical complexities in accordance with society's expectations of the audit profession;
- Ensure that ethical attitudes and values now and in the future play an important role in the audit profession;
- Seek to influence the members of FSR Danish Auditors to observe the ethical standards in their daily work-lives.

The Ethics Committee may, at its discretion, contact members about possible ethical issues. Such inquiries can, for example, be based on publicity or requests from other members. However, the Ethics Committee shall not make decisions in relation to members, but may refer any ethical issues to the FSR Danish Auditors Board, who will decide whether to initiate steps in relation to members, including possible referral to the Danish Audit Board (see figure IV.5).

Denmark has therefore successfully implemented the Code of Ethics. It is implemented in the Danish Audit Act and also through the guidelines issued by the Ethics Committee. If differences arise between international developments and Danish practice, the Danish Ethics Committee can use the guidelines to ensure that such differences are reconciled.

Language barriers

There are no documented language barriers to Danish authorized auditors, regulators or other stakeholders understanding or efficiently implementing standards. Nor are there language barriers to Danish auditors, regulators or stakeholders participating in standard setting processes, and as such FSR Danish Auditors and other actors always respond to exposure drafts and other pronouncements pertaining to accounting and auditing matters, issued at the international and regional levels.

There would, however, be a language barrier to non-Danish speaking actors participating in Danish regulatory discussions with regard to matters concerning accounting and auditing as such discussion would be undertaken in Danish.

Mutual recognition

Registration of auditors and audit firms from third countries requires such auditors and audit firms to be subject to the Danish audit quality control and the Danish court of

inquiry (Danish Commerce and Companies Agency)¹⁸¹. There are no specific mutual recognition agreements in place. It should however be noted that within the European Union there is a focus on improving mobility for professionals¹⁸². It is up to the Danish Commerce and Companies Agency to approve persons who provide proof of having completed a course of education abroad which can be equated with the training requirements in Denmark. A so-called ‘equivalence assessment’ is carried out by the Danish Agency for International Education. The Danish Audit Commission can subsequently assess whether the practical training is in accordance with the requirements arising from the Danish Audit Act. If a candidate’s theoretical education and practical training meet the requirements then the candidate qualifies for an ‘aptitude test’. The aptitude test determines whether the person has acquired a thorough knowledge of Danish legislation, Danish tax law and so forth, in order to ensure that the person will be able to carry out auditing in Denmark under the same conditions as apply to persons with Danish professional qualifications. The aptitude test is conducted in Danish.

Mutual recognition agreements may be influential in harmonizing education, training and examination requirements¹⁸³. The European Union is now considering the strengthening of mutual recognition agreements for professional accountants in order to better facilitate trade in accounting, financial reporting and auditing services.¹⁸⁴ Such a move may impact the qualification of professional accountants across European Union member States.

It is also, at a global level, clear that the IES issued by the International Education Standards Board (IESB) of the IFAC has had the effect of harmonizing the process of qualifying as a professional accountant. It is therefore important for regulators, academics, practitioners and other stakeholders of financial reporting and the accounting profession to understand differences and similarities in countries’ approaches to regulating and overseeing the process of qualifying as a professional accountant. Having such comparative understanding may facilitate the continuous strengthening of national human capacity in this area.

F. Other participants in the supply chain

Training those responsible for oversight of corporate reporting: public audit boards

In 2008 the reformed Danish Audit Act introduced a requirement for the establishment of audit committees in Danish listed companies. In connection with the establishment of an audit committee in a listed company it is important that the Act's rules on independence and audit and accounting qualifications are followed. The audit committee's primary role is to monitor:

- The financial reporting process;

¹⁸¹ http://erhvervsstyrelsen.dk/revisionsvirksomheder_i_tredjelande (accessed 10 July 2013).

¹⁸² To read more see; <http://www.europarl.europa.eu/news/en/news-room/content/20130612IPR11615/html/Mutual-recognition-of-professional-qualifications-MEPs-strike-deal-with-Council> (accessed 1 Sep., 2013).

¹⁸³ This has been illustrated through the example of the United States, Canada and Mexico, which agreed in 2002 to mutually recognize the substantial equivalence of their professional accounting designations.

¹⁸⁴ See http://ec.europa.eu/internal_market/auditing/reform/index_en.htm

- The effectiveness of the internal control and risk management systems;
- The statutory audit, including ensuring its independence.

The primary duties of the audit committee therefore include the following:

- Monitor the effectiveness of the internal control system, risk management system and any internal audit function.
- Monitor the financial reporting process, including, for example, significant accounting policies and estimates on individual transactions, closure plan for the period ends.
- Monitor the statutory audit, including planning, execution and reporting.
- Monitor and review the auditor's independence, including relationships, non-audit services and setting the selection of external auditors to the board of the company.

In order to carry out these duties the Danish Audit Act specifies that, at a minimum, at least one member of the audit committee shall have educational qualifications in the areas of audit or accounting. The Danish Audit Act does not prescribe a specific theoretical or practical education that would enable a member to satisfy the requirement of having qualifications in audit or accounting. However, the Act does state that it should be assumed that a candidate should possess those qualifications if the candidate possesses one or more of the below attributes:

- Is an approved auditor following Danish regulations or has similar qualifications;
- Has had the primary responsibility within a company for preparing financial statements;
- Has had the leadership responsibility for an internal audit unit;
- Has previous experience on an audit committee;
- Has had other experience with the supervision of accounting, financial reporting and auditing.

Any of above attributes shall have been gained for a minimum of one financial reporting period, either in Denmark or abroad. The central component in assessing the qualifications is to ensure that the candidate has sufficient knowledge in financial reporting in accordance with IFRS (cf. section on accounting regulation in Denmark) and/or the overall process of conducting an audit following ISA.

The accounting skills of regulators

The main regulator in Denmark in the area of accounting and auditing, the Danish Commerce and Companies Agency, is embedded in a network of advisers with strong competencies in auditing and accounting. The Danish Commerce and Companies Agency receives advice and proposals for action when required by FSR Danish Auditors, who follow all international developments in the area of auditing.

In addition, the Danish Commerce and Companies Agency ensures that necessary accounting and auditing skills have become instituted as a fixed part of the regulatory arena (figure IV.5) by having established the three audit institutions, namely the Danish Audit Commission, the Danish Audit Oversight Institute and the Danish Audit Board.

Human capacity in the area of corporate social responsibility

With increasing demands on companies' reports, it is expected that the auditor in the future may make several statements in areas such as the financial sector, and new areas such as corporate social responsibility (CSR) and the environment (FSR Danish Auditors, 2010).

In October 2011 the European Commission adopted a new strategy on CSR. The strategy places a strong emphasis on a core set of internationally recognized CSR guidelines and principles. It highlights in particular the 10 principles of the United Nations Global Compact; the OECD Guidelines for Multinational Enterprises; the ISO 26000 guidance on social responsibility; the ILO Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy; and the United Nations Guiding Principles on Business and Human Rights. The European Commission refers to these instruments as 'an evolving and recently strengthened global framework for CSR'. In March 2013 the European Commission issued a study that analysed the public references that companies make to the instruments listed above (EC, 2013).

There are no special education or certification requirements for accountants, auditors or others who seek to work in the area of auditing CSR or environmental reporting. Nevertheless it is emphasized in the most recent reports of the Danish Audit Commission that clients (companies) have an increasing need for declarations in new areas such as CSR and the environment.

G. Capacity-building needs

Developing CPD

The next capacity-building project in Denmark is that of incorporating thinking on and knowledge of the Code of Ethics into several of the CPD courses in auditing.

Strengthening the study culture among students at the master's degree in auditing

The educational institutions are continuously working on strengthening the study culture among students at the CMA. CBS reported in 2013 that the programme faces issues with students not attending classes, not preparing for classes and not participating in discussions. As most CMA students are working full-time with a professional accounting firm, these problems are in part associated with their work burden. The firms and educational institutions are therefore working together to establish a space where the accounting firms can ensure that their staff have the time required to fully embrace the knowledge that is to be gained from the CMA. It is maintained in the CMA that it is critical that students gain critical thinking capacity and understand the theories behind accounting and audit practice. This is a continuous process.

As illustrated through the Danish case study it is only less than half of the candidates that go through the pre-qualification process for State-authorized auditors (see Østrup and Østrup, 2009). The remaining part ends up taking other roles in the financial reporting supply chain. This means that the pre-qualification education of State-authorized

auditors in Denmark is of critical importance to a broad set of work profiles in the area of accounting and financial reporting.

Closer alignment between the quality review findings of the Danish Oversight Institute and the pre-qualification education¹⁸⁵ of State-authorized auditors

With the reform of the Danish Audit Act in 2008 and the establishment of the Danish Oversight Institute and the annual quality review processes on auditing and auditors there are areas where there may be quality problems. Such quality problems can serve as important input in regards to areas where theoretical education and training need to become strengthened.

In the last two years one can find examples of documented weaknesses in the areas of internal control and independence in the annual quality review reports issued by the Danish Oversight Institute. This could then indicate that one should place additional focus on such subjects in the pre-qualification education process.

Closer alignment between the quality review findings of the Danish Oversight Institute and CPD courses

CPD education offers the opportunity of combining theoretical and practical education. For example, if the annual quality report issued by the Danish Oversight Institute states that in 2011 there were a number of problems identified with that of maintaining independence requirements. Then one can ensure that there is CPD available on independence rules and regulations on independence as well as case studies on how independence requirements can be implemented within professional audit firms.

Speed of incorporating changes in audit and accounting regulation into the curricula

Changes in both accounting and audit regulation have an impact on the competency requirements for candidates training to work as accountants or seeking to become State-authorized auditors. Educational institutions have to enable teaching models that can quickly accommodate the dissemination of knowledge of such changes. In Denmark, for example, the introduction of the modified audit that took place in 2013 will have to be included in the CMA as of autumn 2013.

Education for specialized areas

Further development of specialized education in public sector accounting and CSR and environmental reporting is required. Today there are no programmes dedicated to developing human capacity in these specialized areas.

¹⁸⁵ Including the masters degree in auditing, the audit academy and other training described in this case study.

International cooperation: twinning exercises, technical assistance to other countries

Denmark has no regional or country-by-country agreements for the purpose of mutual recognition. It could be beneficial to develop such programmes.

H. Lessons learned

Useful lessons gained from the experience of Denmark that would be useful for other countries:

- Changes in accounting regulation have an impact on the requirements in supplying new competencies. Ensuring a sound understanding of any given country regulatory context is a critical and integral part of understanding the impact of accounting regulation on the human capacity requirements. For example, a country like Denmark employs more people in the various accounting related roles that work with the Danish Financial Statement Act (2009) accounting requirements as opposed to IFRS/ISA.
- Changes in audit regulation have an impact on the competency requirements for candidates that train to become State-authorized auditors. In all countries it is essential to comprehend the interrelation between the mandated audit requirements and their impact on human capacity. Identifying how many companies that are mandated to undergo audit or audit-light (hence requiring a State-authorized auditor) is a good indicator of human capacity need for audit practitioners.
- In Denmark the CMA plays an important role in the continuous supply of competencies in accounting and audit. The Danish case has shown that the establishment of an academic programme as a mandated part of the supply of State-authorized auditors not only serves to educate auditors but also has a spill over effect to the other accounting roles in the human capacity chain of financial reporting. In addition the mandated requirement of an academic programme has stimulated communication on human capacity requirements between the PAO (FSR Danish Auditors), the universities and the professional accounting firms.

I. Conclusions and outlook

This case study suggests that to capture the human capacity development needs it is necessary to fully understand the regulatory requirements and their inherent complexities in the country. Regulatory requirements in both financial reporting and auditing will have a bearing on determining the development and maintenance of human capacity in these areas. Therefore in the area of financial reporting, accounting and auditing in any given country context, one needs, as a starting point, to understand the supply and demand landscape for audit and financial reporting/accounting services. This would involve a careful mapping and analysis of the regulatory requirements together with quantitative analysis that identifies the number of companies in a country that have to meet the various levels of accounting and audit requirements. It has, for example, been illustrated that in Denmark, by far the largest number of companies are to comply with national accounting legislation (as opposed to IFRS/ISA) and that the requirements of mandated audit for companies have been reduced during the last decade. Making this analysis will hence provide an indication of the amount of human capacity (i.e. number of

people) and the corresponding level and type of education required, to ensure a viable supply of capacity into the financial reporting supply chain.

Building adequate human capacity for high-quality reporting

In the Danish case the CMA is a critical component in building and maintaining human capacity in the area of financial reporting. As illustrated in this case study, the master's degree delivers candidates not only for the process of becoming a State-authorized auditor but also for roles such as chief accountant, controller, CFO and other related roles. An important factor in forming the content of the CMA is the continuous collaboration between the FSR Danish Auditors, the professional accounting firms, the regulating institutes and the academic institutions. This collaboration is simply established through regular meetings where curricula, student culture, regulatory requirements and other issues that are relevant to the profession are discussed and agreed upon. An advantage of collaboration with academia is ensuring that the profession is continuously updated on new developments in research into financial accounting and auditing.

Ensuring harmonization between national education curriculum and international requirements

In Denmark this is done on a continuous basis. Denmark has a clearly defined regulatory system for the education and qualification of State-authorized auditors that is governed by the Danish Commerce and Companies Act. The collaboration between academic institutions, regulators, professional firms and FSR Danish Auditors stimulates and strengthens this process.

Linkages between quality assurance of audit practice and the education of accountants and auditors and education for specialized areas

It is likely that a country like Denmark can continue to strengthen its human capacity-building in the area of financial reporting by increasing the linkages between findings of the Danish Oversight Institute with the education of State-authorized auditors. In addition the competency framework for accountants and auditors who seek to specialize in the public sector or CSR should prospectively get more educational opportunities in these areas.

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Annex IV.1. Key courses included in the CMA

Financial Accounting

The course includes both accounting theory and practical application of accounting concepts. The aim is to equip students with the knowledge of the theory elements that support the constructs of the financial statements. The course includes IFRS/IAS as well as the Danish Accounting Law (ÅRL).

Advanced Financial Accounting

The purpose of this course is to provide a thorough knowledge of accounting regulation in financial instruments, share-based payments and consolidated financial statements. Specifically, students will gain an in-depth understanding of the international standards for recognition and measurement of financial instruments, the international standard for share-based compensation as well as a thorough understanding of the purpose of the consolidated financial statements and the approach used in the consolidation.

In addition, students will get an insight into other accounting issues such as translation of foreign companies' accounts in foreign currency and the equity method. The course also includes elements of financial accounting theory.

Tax Law

The course aims to provide students with basic knowledge of the income tax system in Denmark. The course focuses on the application of general legal sources, e.g. laws and jurisprudence in a tax law context, and the application of the 'special arguments' to be applied when the solutions are based on "general tax principles".

Accounting Information Systems (AIS)

Identify the key control structures at the AIS and the precursor principles behind these structures.

Company Law

The course objective is to provide students with a thorough knowledge and understanding of Danish public and private limited companies. This means that students should acquire knowledge of the main corporate law and basic concepts for an understanding of corporate legal organization and behaviour. The students will gain not only knowledge of the rules, but also an understanding of the underlying reasons for the legal framework. There is a focus on the protection of shareholders, creditors and employees. The intention of the course is for students to be able to identify and resolve key problems in limited company law.

Finance

Through this course, students acquire skills to identify and resolve specific financial and legal-financial issues. Students must be able to identify and prioritize the relevant sources of law and legal principles available in this area and on this basis to use such rules to address specific and current finance problems.

Insolvency Law

The objective of the course is to provide students with a thorough knowledge of the key insolvency legal problems and insolvency regulation. The students should be able to identify the relevant insolvency law issues; find and prioritize the sources to be taken into account when resolving insolvency problems, argue convincingly for the legal settlement of an insolvency law issue and in this regard navigate securely between the relevant sources of law and insolvency law and formulate proposals for prevention or mitigation of insolvency conflicts.

Auditing

The course aims to provide students with the theoretical basis underlying audit practice and regulation. The students get an overview and in-depth knowledge of the discipline's theoretical foundation and its basic concepts, principles and methods. Moreover, students acquire knowledge of the analytical and logical basis of audit practice. The course also deals with practical problems associated with collecting and evaluating audit evidence related to the companies' accounting systems, internal controls and basic records to evaluate the reliability of accounting information. This is a subject where there is an interaction between theory and the ability (on the basis of theory) to make quick assessments of the evidence, controls and records. Moreover, it provides a profound knowledge of the role and responsibilities, ethical framework and overall legal basis for the auditor's work.

Master's Thesis

A thesis of 120 pages (if two students write together) or 80 pages (if a student writes alone). The subject must relate to audit.

Annex IV.2. Key literature for the audit course at CBS

Note that every academic year new articles, research and texts often supplement the literature used on the audit course and listed below.

Author	Text
Kjeld, C and Kiertzner, L.	Professionsetik for Revisorer, (FSR 2007) <i>Title in English: Ethics for the audit profession (book)</i>
Elm-Larsen, Rolf	Offentlig revision – empiri og teori (Thomson, 2011) <i>Title in English: Public sector audit: empirics and theory</i>
Elm-Larsen, Rolf	Forvaltningsrevision: Begreb, teori og proces (Samfundslitteratur, 2007) <i>Title in English: Compliance audit</i>
Heilbuth and Tjagvad	IT-Revision (Thomson Reuters, 2008) <i>Title in English: IT Audit</i>
Johansen, T.R, Lunden, M., Harloff-Helleberg, M., Davidsen, C and Laursen, P	“Danske perspektiver på revisorer og revision”(Thomson 2011) <i>Title in English: Danish perspectives on auditors and audit</i>
Messier, W.F., Eilifsen, A., Glover and Prawitt	Auditing and Assurance Services: A Systematic Approach (McGraw-Hill, Int. Edition, 2012)
Langsted, L.B., Andersen, P.K. and Kiertzner, L.	Revisoransvar (Thomson, 2008) <i>Title in English: Audit responsibility</i>
Langsted, L.B; Fücksel, K., Skovby, J. and Gath, P.	“Revisor – regulering and rapportering” (Thomson, 2010) <i>Title in English: Audit: Regulation and reporting</i>
Flint, D.	Philosophy and Principles of Auditing: An Introduction. (Macmillan, 1988)
Perks, B.	Professions, Society and Accountancy (Accounting and Society, 1993)

Annex IV.3. Number of audited financial reports produced annually in Denmark

Annex IV.3 provides an overview of the number of audited financial reports produced annually in Denmark (FSR, 2013).

Accounting class	2008	2009	2010	2011
A	321	280	257	218
B	184 096	188 771	186 291	180 856
C	7 402	7 195	6 925	6 638
D	160	116	81	71
Unknown	6 891	6 292	5 471	5 589
Total	198 870	202 654	199 025	192 372

Acronyms

Acronym	Definition
AAU	Århus Business School
AIS	Accounting Information Systems
AMVAB	Aktivitetsbaseret Måling af Virksomhedernes Administrative Byrder
ÅRL	Årsregnskabsloven (Danish Financial Statements Act)
ASB	Ålborg Universitet
AU	Århus Universitet
CBS	Copenhagen Business School
CFO	Chief Financial Officer
CMA	Master's degree in auditing
COR	Certificeringsordningen for Offentlig Revision
CPD	continuing professional development
CSR	corporate social responsibility
DKr	Danish Kroner
EC	European Commission
ECTS	European Credit Transfer and Accumulation System
EEA	European Economic Area
EEC	European Economic Community
EGAOB	European Group of Auditors' Oversight Bodies
EPSAS	European Public Sector Accounting Standards
FRC	Financial Reporting Council
FRS	Financial Reporting Standard
FRSSE	Financial Reporting Standard for Smaller Entities
FSR	Foreningen af Statsautoriserede Revisorer
GDP	Gross Domestic product
HA	Erhvervsvidenskabelig Afgangseksamen
HD	Erhvervsøkonomisk diplomuddannelse
IAESB	International Accounting Education Standards Board
IAS	International Accounting Standards
IES	International Education Standards
IFAC	International Federation of Accountants
IFIAR	International Forum of Independent Audit Regulators
IFRS	International Financial Reporting Standards
ILO	International Labour Organization
ISA	International Standards of Auditing
ISAE	International Standard on Assurance Engagements
ISO	International Organization for Standardization
PAO	professional accounting organization
SDU	Syddansk Universitet
URL	Uniform Retrieval Language

Chapter V. Case Study of Malaysia¹⁸⁶

A. Introduction

Since independence from the British in 1957, Malaysia's economic record has been one of Asia's best (World Bank, 2012). Once heavily dependent on primary products such as rubber and tin, Malaysia today is a middle-income country with a multi-sector economy, primarily agriculture, mining, manufacturing, construction, and services. Arguably, Malaysia has reached a defining moment in its development path. It is recognized that *Vision 2020*¹⁸⁷ is not possible without economic, social and government transformation. Malaysia is said to be caught in the middle-income trap. In response, the Government has crafted a framework to drive change. The New Economic Model (NEM) and the Economic Transformation Programme (ETP) constitute the key pillar to propel Malaysia to being a developed nation with inclusiveness and sustainability in line with the goals set forth in *Vision 2020*. The ETP is driven by eight Strategic Reform Initiatives (SRIs), forming the basis of the relevant policy measures. The NEM takes a holistic approach, focussing also on the human dimension of development, specifically, in cultivating an enabling ecosystem for human capital excellence with creativity and innovation. Clearly, globalization has created a fierce competition for talent, forcing the Government to recognize that people are the most valuable assets. To compete on a regional and global scale, efforts are currently underway to enable Malaysia to attract and retain talent.

Since independence, Malaysia has made significant investments in developing efficient and well-regulated capital and financial markets, as well as strengthening the institutional framework for the regulation of the accounting and auditing profession. Reasonable progress has been achieved in improving the quality and consistency of corporate financial reporting and corporate governance for public interest entities over the last 10 years. The 2012 ROSC (World Bank, 2012) has also prompted the relevant regulators and stakeholders to reassess and implement actions to further strengthen the accountancy profession and increase compliance with international standards.

In the context of accounting development, the Malaysian Institute of Accountants (MIA), established through the Accountants Act 1967, is the regulatory body for the accountancy sector. It is a member of the International Federation of Accountants (IFAC). The MIA is responsible for setting auditing and ethical standards whilst the Malaysian Accounting Standards Board (MASB), established under the Financial Reporting Act (1997), sets the accounting standards in Malaysia. The Audit Oversight Board (AOB), established by virtue of the Securities Commission Amendment Act (2010), is responsible for ensuring and enforcing compliance with auditing and ethical standards by public interest entity auditors and can require MIA to amend those standards, whilst MIA is

¹⁸⁶ This case study was prepared by the UNCTAD secretariat based on substantive input provided by Professor Susela Devi K Suppiah, University of Malaya, Malaysia.

¹⁸⁷ To be a developed nation by 2020. See Economic Transformation Programme Annual Report 2012.
<http://etp.pemandu.gov.my/annualreport/>

responsible for ensuring and enforcing compliance with the auditing and ethical standards by non-public interest entity auditors.

Overall, the Malaysian accounting and auditing profession is well developed and Malaysian accounting and auditing standards are in line with international standards. Full convergence with International Financial Reporting Standards (IFRS) was achieved in 2012¹⁸⁸(World Bank, 2012). The clarified International Standards on Auditing (ISA) have been adopted in full and became effective for periods beginning on or after January 1, 2010, and the adopted International Standard on Quality Control 1 (ISQC 1) became effective January 1, 2010. The MIA-issued by-laws on Professional Ethics, Conduct, and Practice are, substantially based on the IFAC Code of Ethics for Professional Accountants and became effective January 1, 2011. Additionally, all entities that enter into Islamic Financial Transactions are required to fully comply with the MASB-issued Financial Reporting Standards.

Introduction of a differential reporting regime

As early as 2006, Malaysia introduced a differential reporting regime whereby entities other than private entities were required to apply Financial Reporting Standards (FRSs) which were closely aligned to IFRSs. Private entities were allowed a choice to either adopt FRSs or MASB Standards which represented the national GAAP. Subsequently these were formulated as Private Entity Reporting Standards (PERS). With the issuance of IFRS for SMEs, the MASB deliberated on whether to adopt IFRS for SMEs or retain PERS. The decision was pending as the end of November 2013 as there is insufficient evidence on the efficacy of IFRS for SMEs in the Malaysian context¹⁸⁹. The IASB completed its comprehensive review of the IFRS for SMEs and proposed limited amendments to the IFRS for SMEs in October 2013 (IASB 2013). A MASB working group meeting has been scheduled for 6 December 2013 to discuss the roadmap for differential reporting in Malaysia.

Upon convergence to IFRS in 2012, Entities Other Than Private Entities are required to apply the Malaysian Financial Reporting Standards (MFRS) framework for annual periods beginning on or after 1 January 2012, with the exception of entities subject to the application of MFRS 141 Agriculture and/or IC Interpretation 15 Agreements for the Construction of Real Estate. However, a Private Entity is required to comply with either the Private Entity Reporting Standards in its entirety or the MFRS Framework in its entirety for annual periods beginning on or after 1 January 2012. However, entities which are subject to the application of MFRS 141 and/or IC Interpretation 15 are only required to comply with the MFRS Framework for annual periods beginning on or after 1 January 2014. The entity may in the alternative apply Financial Reporting Standards (FRSs) as its financial reporting framework for annual periods beginning before 1 January 2014.

¹⁸⁸ With the exception of IAS 41(MFRS 141) and IFRIC 15.

¹⁸⁹ http://www.masb.org.my/index.php?option=com_content&view=article&id=576&Itemid=15. A new Exposure Draft 77 on a Malaysian version of the IFRS for SMEs known as Malaysian Private Entity Reporting Standards (MPERS) was issued on 26 August 2013. (see <http://www.iasplus.com/en/news/2013/08/masb-1>)

Enforcement of standards

The compliance to MFRS by public interest entities is under the purview of the Securities Commission and Bank Negara Malaysia, whilst the private entities are under the purview of the Companies Commission of Malaysia (CCM). There are close to 1000 listed companies¹⁹⁰ and their subsidiaries that would be complying with MFRS. On the other hand, as at 31 December 2011, there were 972,500 companies registered under CCM (CCM, 2011).

This chapter discusses the issues relating to human capacity-building in the Malaysian accountancy profession. The convergence to International Financial Reporting Standards in 2012 for public interest entities' financial reporting in the private sector and the International Public Sector Accounting Standards for the public sector entities in 2015 has set in momentum for various efforts to enhance capacity and talent within the profession. These efforts require the joint collaboration by the various regulatory bodies, the relevant ministries as well as the universities, quality education assurance agency, the Malaysian Institute of Accountants (MIA), other recognized professional bodies, and the industry.

B. National education system

The national education system is under the purview of the Ministry of Education (MOE). Students enter the school system at the age of seven into Primary one and complete six years of primary education. Then they move on to five years of secondary education, first three years referred to as lower secondary and following two years as upper secondary education. Then they move on to do either the matriculation programme conducted by MOE or the equivalent, the Higher School Certificate.

The Malaysian Qualifications Framework

The Malaysian Qualifications Framework (MQF) provides education pathways through which it links qualifications systematically. It enables an understanding of the individual's progress in higher education through transfer or credits and recognition of prior learning, acquired from formal and informal learning in the context of lifelong learning. The MQF contains post-secondary national qualifications, which are conferred in the skills, vocational and technical, academic and professional sectors. It has eight levels, namely Certificate Level 1-3, Diploma, Advanced Diploma, Bachelors, Masters and Doctoral Degree¹⁹¹.

¹⁹⁰ <http://www.bursamalaysia.com/market/listed-companies/listing-on-bursa-malaysia/your-listing-destination/>

¹⁹¹ The Malaysian Qualifications Framework is available at http://www.mqa.gov.my/dokumen/MALAYSIAN%20QUALIFICATIONS%20FRAMEWORK_2011.pdf

Education and training of professional accountants

The education and training of professional accountants involves three components: academic, work experience and professional competence development and assessment. It is the joint responsibility of the Ministry of Education (MOE), Ministry of Higher Education (MOHE), Ministry of Finance (MOF), the Malaysian Institute of Accountants (MIA), the universities (referred here as Higher Education Providers, HEP), quality assurance agency (Malaysian Qualifications Agency, MQA), the profession, the employers (audit firms, private and non-private entities).

Malaysian Institute of Accountants

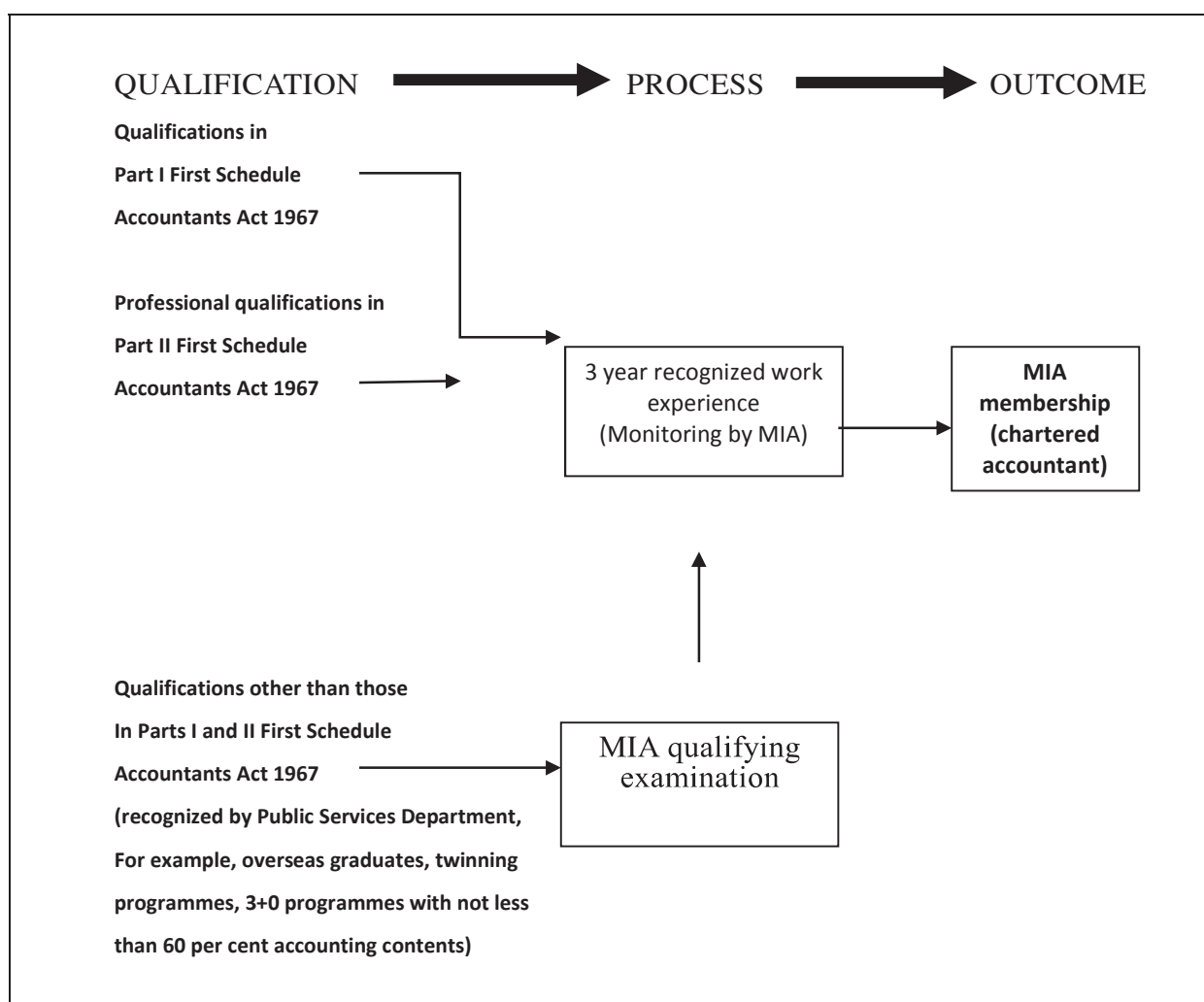
The Malaysian Institute of Accountants (MIA) is primarily responsible for the regulation of the accounting profession and it determines the qualifications of persons for admission as members; provides for the training and education of professional accountants; approves the MIA Qualifying Examination (QE) and regulates and supervises the conduct of that Examination. By end 2012, there are close to 29,000 members in Malaysia and of which 973 members are overseas (MIA, 2012, p.16).

The Chartered Accountant Malaysia or “C.A.(M)” is a designation conferred by MIA to a professional in accountancy, business and finance with a recognized accountancy qualification and relevant work experience. C.A.(M) are the industry captain, corporate leaders and decision makers that play a significant part in nation building. Many on-going initiatives are being undertaken to enhance the levels of competency, transparency, governance and accountability in the accountancy profession. MIA’s efforts to regulate and develop the accountancy profession are thus vital in order to inspire confidence among stakeholders. In this regard the Institute has embarked on initiatives to build a robust, ethical and forward-looking profession while striving to provide value-added services to all members.

Pathways to becoming a chartered accountant

Pathways to becoming a Chartered Accountant in Malaysia are shown in figure V.1.

Figure V.1
Pathways to becoming a chartered accountant in Malaysia



Source: MOHE (2007), Reassessment Report on Accounting Programme at Public Universities of Malaysia 2006 (*Hala Tuju 2 Report*), Malaysia.

There are three qualifying paths open to candidates who wish to become registered chartered accountants with the MIA as shown in figure V.1:

- Pass any of the final examinations specified in Part I of the First Schedule of the Accountants Act (listed in annex V.1) and gain 3 years of practical working experience in the service of a chartered accountant or in a government department; bank; insurance company; local authority; or other commercial, financial, industrial, or professional organization; and/or

- Be a member of any of the recognized bodies specified in Part II of the First Schedule of the Accountants Act (listed in annex V.2); and/or
- Be eligible to sit for and pass the MIA Qualifying Examination (QE) and gain 3 years of working experience in the service of a chartered accountant or in a government department; bank; insurance company; local authority; or other commercial, financial, industrial, or professional organization¹⁹².

The third option requires passing the MIA QE and gaining 3 years of practical work experience. Introduced in March 2003, this route to MIA membership was open to Malaysian accountants who had completed a degree in accounting, finance, or business but which was not recognized under the Part I (local or overseas graduates) and Part II of the First Schedule of the Accountants Act. There are an increasing number of foreign universities establishing campuses to offer their degree programmes in Malaysia. This is expected to provide the MIA growth opportunities for its membership in light of interest in these qualifications being shown by Malaysian students.

The MIA QE consists of four parts: (a) taxation, (b) business and company law, (c) advanced financial accounting and reporting, and (d) auditing and assurance services. Because the MIA recognizes foreign accounting designations as an alternative to writing these examinations, it is possible to become a chartered accountant, and then a registered auditor in Malaysia, without actually writing any examinations that cover Malaysian taxation rules and company law. Practicing accountants and auditors who have completed a degree and gained a foreign accounting designation prior to joining the MIA would likely have become familiar with concepts of taxation and securities legislation in jurisdictions whose legal framework was inspired by the British common law system, and therefore would be similar to that of Malaysia. The ROSC 2012 has advised that MIA introduce a requirement for members of recognized foreign accountancy bodies to be required to demonstrate sufficient knowledge and competence in Malaysian taxation rules, as well as local business and company law.

Whilst it was noted that the different paths available to achieve membership in the MIA have enabled the profession to broaden its membership and meet the country's needs, the ROSC 2012 advised that in order for MIA membership to be considered equivalent to the accounting designations it recognizes, it needs to strengthen the qualifying examination programme that is mandatory for candidates who have not achieved one of those designations recognized under Parts I and II of the First Schedule of the Accountants Act. The ROSC 2012 recommended that a professional-level qualifying examination should include topics such as Issues in Professional Practice, Strategic Financial Management, Ethics and Governance, Global Strategy and Leadership, as well as some advanced elective courses in the areas of taxation, auditing, management accounting, and information technology. These recommendations are currently in the process of being implemented.

¹⁹²The Qualifying Examination is open to students with qualifications relating to accounting, business or finance not recognized under the Accountants Act 1967 but recognized by the Malaysian Public Services Department, or other qualifications approved by the MIA. Those qualifications should not be lower than a first degree and must contain at least 60 percent of accounting content.

Admission to membership

In the financial year 2011/2012, 1,804 qualified individuals were admitted as MIA members, comprising 1,760 Chartered Accountants and 44 Associate members. The number of members admitted increased by 16.5 per cent compared to the previous year. As at 30 June 2012, membership totalled 28,489, comprising 28,292 Chartered Accountants, seven (7) Licensed Accountants and 190 Associate members. More academics joined MIA this financial year as either Associate members or Chartered Accountants, and this ongoing professionalization of academia is seen as an encouraging signal for the future development of the accountancy education sector as well as our talent development initiatives (MIA, 2012).

Of the 1,760 Chartered Accountant members, 1,726 members qualified under the Part I and Part II of the First Schedule of the Accountants Act, 1967 and 34 were MIA QE graduates. Overall, 38 per cent of the members were admitted via the professional membership route, 59 per cent are local graduates and 3 per cent possess other qualifications. Admission of members under Part I Schedule 1 Accountants Act 1967 is shown in table VI.1.

Table V.1
Membership admission under Part I Schedule I

Name of institution	Number NNo
Bachelor of Accounting, University of Malaya	89
Bachelor of Accounting (Honours), Universiti Kebangsaan Malaysia	97
Bachelor of Accounting, Universiti Teknologi MARA	308
Bachelor of Accounting (Honours), Universiti Utara Malaysia	233
Bachelor of Accounting (Honours), Universiti Putra Malaysia	107
Bachelor of Accounting (Honours), Universiti Islam Antarabangsa Malaysia	40
Bachelor of Accounting (Honours), Universiti Sains Malaysia	25
Bachelor of Accounting (Honours), (Information System), Universiti Utara Malaysia	27
Bachelor of Accounting (Honours), Universiti Tenaga Nasional (the academic programme for which first commenced from the academic year 2002/2003 onwards)	16
Bachelor of Accounting (Honours), Universiti Multimedia (the academic programme for which first commenced from the academic year 2002/2003 onwards)	57
Bachelor of Accounting (Honours), Universiti Malaysia Terengganu	18
Bachelor of Accounting (Honours), Universiti Malaysia Sabah	19
Bachelor of Accounting (Honours), Universiti Industri Selangor	8
Total	1 044

Source: MIA Annual Report (2012, p.15).

Table VI.2 shows the admission of members under Part II Schedule 1 Accountants Act 1967.

Table V.2
Membership admission under Part II Schedule 1

Name of professional body	Number
Malaysian Institute of Certified Public Accountants	15
Institute of Chartered Accountants of Scotland	1
Institute of Chartered Accountants In England and Wales	12
Institute of Chartered Accountants in Ireland	1
Association of Chartered Certified Accountants (United Kingdom)	406
Institute of Chartered Accountants in Australia	22
CPA Australia	179
New Zealand Institute of Chartered Accountants	4
Canadian Institute of Chartered Accountants	-
Institute of Chartered Accountants of India	3
Chartered Institute of Management Accountants (United Kingdom)	39
Total	682

Source: MIA Annual Report (2012, p.16).

Number of professional accountants: A comparison

A recent study shows that Malaysia needs about 80,000 professional accountants by 2020 (Mohd.Nor, Mohd Zaini and Md.Zahid, 2013). A comparison of population per accountant shows Malaysia requires at least 62,472 accountants if it is to be comparable to a developed country such as the United Kingdom of Great Britain and Northern Ireland. It is noted that compared to more developed countries, there is scarcity of accountants in the emerging economies.

Table V.3
Number of professional accountants as at 27 June 2010

Country	Islamic Republic of Iran	Uzbekistan	Malaysia	United Kingdom	United States of America	Canada
Population	74 196 000	27 488 000	27 468 000	61 565 000	314 659 000	33 573 000
Professional accountant	1 684	4 000	26 261	140 000	360 000	75 000
Ratio	1:44 060	1:6 872	1:1 046	1:440	1:874	1: 448

Source: Kamyabi (2011).

Ensuring quality of accounting graduates

The MIA has developed guidelines on accreditation of accounting courses, which include a comprehensive list of criteria aimed at ensuring that the courses meet the objectives and needs of employers and encourage the development of students' skills and motivation to engage in lifelong learning, and that graduates are able to meet the challenges faced by the accounting profession. In addition to collecting information on the courses offered, as part of the evaluation process, the MIA will obtain information on teaching staff, facilities, management, quality assurance, and examination papers. The MIA will also conduct inspections of institutions providing accounting education; review the evaluation conducted by other professional bodies, and review the quality assurance processes. While considerable progress has been achieved in evaluating any new accounting degree programmes offered and setting standards for all programmes, the monitoring and enforcement activities for existing programmes have not been effective as reported in the 2012 ROSC: Malaysia.

In this context, arising from some key developments, namely the Economic Transformation Programme Report under the National Key Economic Areas (NKEA) which is driven by the Performance Management and Delivery Unit in the Prime Minister's Department (PEMANDU) and the 2012 ROSC: Malaysia, the MIA Council in its meeting on 25 April 2012 had approved the framework to review the recognized accounting degree programmes listed under Part I of the First Schedule of the Accountants Act, 1967. The review aimed to certify that the accredited accounting degree programmes meet and comply with the required quality standards set by MIA. At the same time, it will improve the industry perception of qualifications from local universities through various initiatives. The review will be conducted every five (5) years (MIA, 2012).

Monitoring work experience

The 2012 ROSC: Malaysia commended that the MIA has improved its monitoring system for graduates' experience requirements for admission as chartered accountants through the programme Chartered Accountant's Relevant Experience (CARE). CARE, effective November 1, 2009, monitors the level of competencies of its participants for three years beginning the day they register as CARE participants. It requires documentation of the various experience requirements that its participants gain over the three-year period in auditing, taxation, financial reporting, business planning, finance, management accounting, and information technology. There are four core topics and various electives. Applicants are required to achieve a certain level of competency in all core areas, and additional competencies in the elective topics. CARE requires a mentor for each participant. The MIA will provide a mentor for those candidates unable to identify one themselves.

The CARE is a systematic assessment programme which monitors the working experience of its participants for three (3) years beginning the day they register as CARE participants. It sets out a range of competencies that needs to be obtained before qualifying as a chartered accountant. As at 30 June 2012, there were 2,510 registered CARE participants for the programme, 885 of them have become MIA members. During the year 2011/12, MIA initiated several programmes to increase the awareness of CARE among accounting students in local

universities. Funded by the Government under the National Key Economic Areas, MIA has conducted 12 sessions with the universities to date. This CARE programme is expected to ensure consistency of practical experience undertaken by candidates and it will be monitored by MIA. This is further discussed in Section V.

Post qualifications training

In order to raise the quality and instil integrity and ethical practices among its members, MIA encourages best practices of corporate governance to mitigate investing and business risks, and make accountants more relevant to the global business and investing community. To sustain professional development and growth, MIA attempts to deliver lifelong education and training via conferences, seminars and workshops, all of which are held on a regular basis. Annually, MIA organizes its flagship event, the MIA International Accountants Conference which is well attended by international participants. This conference showcases top notch speakers and industry captains sharing their thoughts and insights on the latest developments on accounting and business.

MIA plans to create and deliver innovative ‘blue ocean’ strategies that are not available elsewhere in order to mould top-notch global accounting professionals. Apart from emphasizing strong technical and management skills, MIA CPE components focus intensively on the development of ethical leadership to create financial professionals with integrity. For 2011/12 MIA CPE planned and delivered a cumulative 194,000 hours of training compared to 218,000 hours¹⁹³ in 2010/11 (MIA, 2012).

C. The regulatory framework

As noted above, the Accountants Act 1967 and the MIA by-laws determine the regulations pertaining to the accounting profession. Further, specific rules with respect to the appointment of auditors are set out in the Companies Act 1965. The Accountants Act 1967 prohibits one from holding himself/herself out as an accountant unless he/she is a member of MIA. MIA’s regulatory functions ensure quality control for all its members. The code of ethics sets out the basic tenets of professional behaviour. The code of ethics, continuous professional development, practice review, market surveillance, financial statements review, investigation and disciplinary activities of MIA are discussed next.

Code of Ethics

The By-Laws on Professional Ethics¹⁹⁴ is substantially based on the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants. In acting in the public interest, a professional accountant is required to observe and comply with the ethical requirement of the by-laws of MIA that have been framed with the objective that

¹⁹³ In 2010/11, there was a high number of CPD hours provided as a result of the World Congress of Accountants organized by MIA. The following year the hours offered appear to be lesser but it is not the case.

¹⁹⁴ http://www.mia.org.my/handbook/bylaws_new/mia_by_law_revised_jan_2011.pdf

members exhibit the highest standards of professionalism and professional conduct that are expected of the profession¹⁹⁵.

Continuing professional education

All members are required to fulfil specified continuous professional development hours to ensure the continuation of MIA membership. The MIA Council approved the issuance of a new by-law, Section 410 on Continuing Professional Education (CPE), which is in compliance with IFAC-issued IES 7, *Continuing Professional Development: A Programme of Lifelong Learning and Continuing Development of Professional Competence*. As a result, CPE requirements for all members of the MIA were changed to comprise 60 CPE credit hours of structured and verifiable learning and 60 CPE credit hours of unstructured learning for each three-year, on-going CPE cycle, regardless of the category of membership or nature of their practice. The completed CPE credits logged by members are subject to random audits. The MIA has introduced a 100 per cent audit of all CPE credits over each three-year cycle (MIA, 2012).

Continuing professional education verification

A professional accountant is required to participate in CPE learning activities that are relevant to his current and future work and professional responsibilities to maintain professional competence and to ensure the exercise of due care at all times. MIA through its CPE function continues to ensure that members adhere to basic tenets of ethical and professional conduct.

For the year 2011/12, MIA conducted CPE verification on all active members, commencing with a batch of 6,900 members. As at 30 April 2012, a total of 617 non-practitioners (representing 14 per cent of the targeted non-practitioners) and 835 practitioners (20 per cent of the targeted practitioners) had submitted the CPE online declaration. There was a shortfall of 50 per cent non-practitioners and 2 per cent exempted members, whereas in the case of practitioners there was a shortfall of 13 per cent members and 1 per cent exempted members¹⁹⁶. This shows more effective mechanisms have to be implemented to ensure members' compliance with CPE requirements.

Practice review

MIA introduced the practice review programme in 2003 for its practitioners who are engaged in audit. Under this programme, all audit firms registered with MIA are required to submit themselves for practice review by the Institute. This is a mandatory

¹⁹⁵ For the list of amendments to the Institute's By-Laws from the year 2002, refer to http://www.mia.org.my/handbook/bylaws_new/

¹⁹⁶ As per paragraph 410.9, the MIA Council may in its absolute discretion, grant a temporary or partial exemption from the CPE requirements for (a) prolonged illness or disability; and/or (b) any other reason as may be determined by the Council. Please see http://www.mia.org.my/handbook/bylaws_new/part2_410-6.htm

obligation on the part of the practitioners to ensure that their firms are ready for review when selected to do so. This review is imposed on both small medium practices (SMPs) as well as the “big four” firms. The review is at two levels: firm-level (based on ISQC 1) and the engagement review level (through review of audit files).

The Institute issues a practice review report to the firm. The report contains the findings on the review and recommendations for the improvement of audit quality. Firms will be rated either as Type 1, 2, or 3. This serves as the acid test for the firm. The report is customised for each firm and is intended to enhance the skill set of the practitioner and raise his level of professional competence. Through this process, the practitioner is made aware of the areas of weakness which should be remedied immediately so that the audit quality of the firm is improved and enhanced.

As at 30 June 2012 a cumulative total of 583 firms have been reviewed, accounting for 43 per cent of the 1358 audit firms registered with MIA. Of the 583 firms reviewed, 459 final (signed) reports have been approved by the practice review committee and released to the firms. The balance of 124 firms’ review was in- progress (MIA, 2012). The results of the 459 reports cumulatively showed that approximately 8.4 per cent are rated Type 1 (satisfactory), 47.3 per cent are rated Type 2 (assurance of compliance to be provided) while 44.3 per cent are rated Type 3 (follow-up review).

Given the high percentage of reviews that were rated as Type 3, MIA has undertaken remedial measures which include requesting the firms to submit their action plans to overcome the weakness and to attend compulsory remedial courses conducted by MIA before the commencement of the follow-up review (2nd review). Improvements shown in the follow-up review in overcoming the weakness of the firm will be reflected by improved ratings. Continued failure in adhering to compliance with professional standards in performance of engagements and lack of improvement in overcoming weaknesses highlighted in the first review however will lead to disciplinary action.

The human resources issue and capacity-building efforts resulting from the MIA practice reviews are discussed in Section V.

Financial statements review and market surveillance

MIA carries out the Financial Statements Review (FSR) as part of its surveillance and Enforcement duties. It works with the FSR Committee to monitor the quality of financial statements through a review process. It reviews cases referred by other regulators such as the Securities Commission, Bank Negara or Companies Commission of Malaysia; provides guidance to MIA members on good financial reporting based on common findings identified during the review process; keeps track of media reports on possible accounting irregularities and reporting deficiencies in public listed companies and public interest entities and advises on the necessary action to be taken against the relevant member; perform “fact findings” on cases referred by other regulators before drafting complaints on behalf of the Council for further investigations.

Further, in contributing towards the well-being of the capital market, MIA continuously monitors market developments through channels such as the media. This objective is to ensure that the integrity of the financial reporting chain is continuously

maintained. In the event that MIA comes across reports of financial reporting issues in the media, the standard procedure will be to write to the auditors to seek an explanation on the matter.

Investigation

The Investigation Committee is a statutory committee established under S.19(a) of the Accountants Act 1967 to consider and investigate complaints against members of MIA and to refer them to the Disciplinary Committee, where appropriate.

During the 2011/12, 96 new cases were lodged with the Registrar on various forms of alleged misconduct. The Registrar had rejected and closed one case and two cases were withdrawn by the membership department. A total of nine investigative meetings of the Investigation Committee had been held throughout the period, resulting from which 18 cases were dismissed and 21 complaints were decided to be referred to the Disciplinary Committee. Of the number of complaints decided to be referred, 20 complaints were actually submitted to the Disciplinary Committee upon the Investigation Committee's full reports and one is pending submission of the Investigation Committee report to Disciplinary Committee.

Disciplinary action

The Disciplinary Committee is empowered under the Act to consider all cases referred by the Investigation Committee and those coming directly to it under Rule 18 (2) of the MIA Disciplinary) Rules, 2002. The Disciplinary Committee shall, where it thinks fit, exercise disciplinary powers conferred upon it by the Disciplinary Rules. During the year 2011/12, 21 cases were referred to the Disciplinary Committee, 7 involving auditors and 14 involving, directors, liquidators or others. 9 of these cases resulted in punishment and the remaining are pending (MIA, 2012).

In sum, the MIA monitors the admission of members as specified in the Accountants Act 1967. There are many opportunities for those who wish to qualify as an accountant in Malaysia. Those who want to practice need to undergo further assessment via interviews to obtain the licence issued by Ministry of Finance.

However, the dual role played by MIA as a statutory as well as a professional body is seen to pose challenges to the Institute to discharge its responsibilities effectively. Discussions are underway to review the governance and competency framework¹⁹⁷. These initiatives are discussed in Section VII.

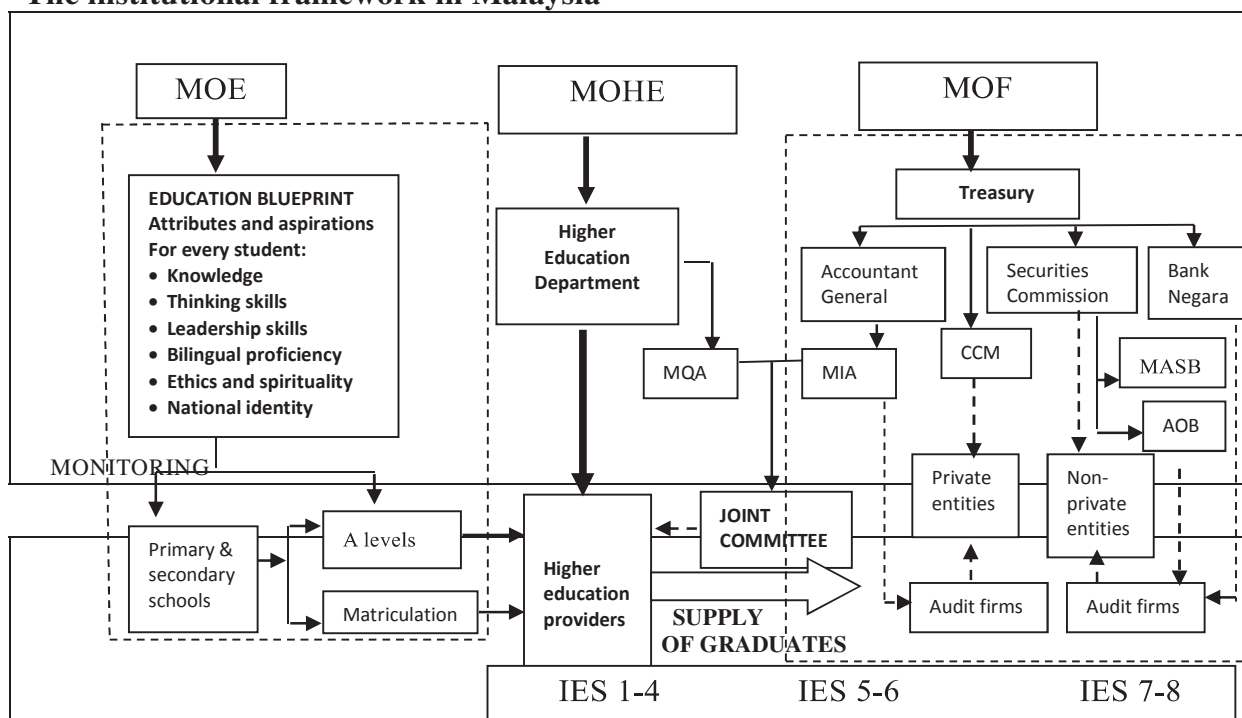
D. Institutional framework

Figure V.2 shows the institutional framework and the key players in the education and training process. The institutional framework underpinning the accountancy

¹⁹⁷[http://www.mia.org.my/new/downloads/news/national/2013/08/29/Government_Structure_Review_Task_Force_-_Discussion_Paper_\(Final\).pdf](http://www.mia.org.my/new/downloads/news/national/2013/08/29/Government_Structure_Review_Task_Force_-_Discussion_Paper_(Final).pdf)

profession is effectively captured by observing the composition of the MIA Council. The Accountants Act 1967 was amended in 2001 to enlarge the council to include the various stakeholders in the education, certification/licensing, and the financial reporting and regulatory process.

Figure V.2
The institutional framework in Malaysia



Source: MOE (forthcoming).

The composition of the 30 member MIA Council is shown in table VI.4 is stipulated as such to facilitate exchange of information and interaction among the regulators, educators and others. The roles of the various institutions supporting the education and training of professional accountants are discussed briefly.

Table V.4
Composition of the MIA Council

Institutional Representative	Number
The Accountant General or his nominee	1
Public universities*	5
MICPA (the President)	1
Local branches of the recognized bodies specified in Part II of the First Schedule* (the Presidents)	3
MICPA (one member appointed from among the members of the council of the MICPA, other than its President*	1
SC, BNM, CCM and others*	9
MIA (members elected by the annual general meeting of the Institute in accordance with the rules of the Institute)	10
Total	30

* Appointed by the Minister on the advice of the Accountant General.

Ministry of Education

In 2012 The Ministry of Education announced its Blueprint to ensure that the Government is able to achieve its goals by raising its overall education standards (MOE, 2012).¹⁹⁸ The Blueprint calls for fostering greater self-regulation, industry-led quality standards, and harmonized regulations across both public and private institutions. Furthermore, building an Islamic finance and business education discipline cluster is one of the Entry Point Projects included in the Government's Economic Transformation Programme and this is reflected in the human capacity-building efforts in the accounting profession.

Ministry of Higher Education

The Ministry of Higher Education (MOHE)¹⁹⁹ was created on 27 March 2004 to take charge of higher education in Malaysia which involves more than 900,000 students pursuing higher education in 20 public universities, 33 private universities and university colleges, 4 foreign university branch campuses, 22 polytechnics, 37 community colleges and about 500 private colleges. The MOHE's mission is to create a higher education environment that will foster the development of academic and institutional excellence. It is in line with the vision of the Government to make Malaysia a centre of educational excellence and to internationalize Malaysian education²⁰⁰. Several other government agencies are also involved in higher education under the jurisdiction of MOHE; namely the Malaysian Qualifications Agency (MQA), the National Higher Education Fund

¹⁹⁸ Malaysian Education Blueprint 2013-2025 is available at

<http://www.moe.gov.my/userfiles/file/PPP/Preliminary-Blueprint-Eng.pdf>

¹⁹⁹ MOHE was merged with MOE following the new cabinet announcements subsequent to the 13th General Elections held on 5 May 2013.

²⁰⁰ MOHE launched its Graduates Employability Blueprint 2012-'17.

<http://www.mohe.gov.my/portal/images/utama/penerbitan/TNGEblueprint/GE%20blueprint%202012-2017.pdf>

Corporation (Perbadanan Tabung Pendidikan Tinggi Nasional – PTPTN) and Yayasan Tunku Abdul Rahman (YTAR).

Malaysian Qualifications Agency

In an effort to improve the quality of education in Malaysia, the MOHE enacted the Malaysian Qualifications Agency Act (2007) and established the Malaysian Qualifications Agency (MQA) to enforce the Act. This Malaysian Qualifications Agency is responsible for quality assurance of higher education for both the public and the private sectors. Its main role is to implement the Malaysian Qualifications Framework as a basis for quality assurance of higher education, and as the reference point for the criteria and standards for national qualifications. The Malaysian Qualifications Agency is responsible for monitoring and overseeing the quality assurance practices and accreditation of national higher education. Accreditation is a formal recognition that the certificates, diplomas, and degrees awarded by higher education institutions are in accordance with the set standards.

MQA's main role is to implement the Malaysian Qualifications Framework (MQF) as a basis for quality assurance of higher education and as the reference point for the criteria and standards for national qualifications. The MQA is responsible for monitoring and overseeing the quality assurance practices and accreditation of national higher education²⁰¹. In the context of capacity-building in the accounting profession, the MQA functions as the facilitator, whilst MIA is responsible for accreditation of the accounting degree programmes. The bachelor degree programmes offered by universities listed under Part I of the First Schedule of the Accountants Act 1967 are recognized by the MIA as meeting the education requirements for certification (the accredited degrees are listed in annex V.1).

The MOHE ensures any new accounting degree programme offered meets its own set of guidelines, including an assessment of market needs, prior to accrediting the programme. The establishment of the MQA and the implementation of the MQF are aimed at integrating national higher education efforts to benefit the development of human capital to meet the needs of the knowledge society to ensure national competitiveness in the context of globalization.

International Education Standards for Professional Accountants, IES 1-8, issued by the International Federation of Accountants (IFAC) becomes effective 1 January 2005. As a member of IFAC, MIA is obliged to implement these international standards. In 2003 the Quality Assurance Division of the Ministry of Education published the Guidelines on Standard of Specific Disciplines at Bachelor Degree Level and in 2004 published the Code of Practice: Quality Assurance in Public Universities of Malaysia. These are collectively referred to as the Quality Assurance Standards. These standards are currently in the process of being revised to take account of current developments in accounting including the issuance of IESs that become effective for 2015.

²⁰¹<http://www.mqa.gov.my/>

MOHE initiatives for bachelor of accounting curriculum design

In order to ensure the quality and relevance of accounting degree programmes offered in Malaysia, the MOHE in 2000 established the *Hala Tuju* Committee of Accounting Programmes at Public Universities. The MIA, leading university administrators, and industry representatives were represented on the *Hala Tuju* Committee. The *Hala Tuju 1 Report* was broadly accepted as providing the minimum standards for accounting programmes in Malaysia. It contained a detailed curriculum that incorporated all IFAC International Education Standards. The report is subject to revision every five years. The *Hala Tuju 2 Report* was published in 2006. The *Hala Tuju 3* recommendations are currently being finalized. The detailed discussion on *Hala Tuju Reports* is provided in Section V.

Ministry of Finance

The Ministry of Finance (MOF) through the Accountant General's Office has oversight of MIA. MOF, through the Audit Licence Committee, is responsible for licensing statutory auditors. In addition to being a member of the MIA as a registered—chartered accountant, a statutory auditor is required to (a) be a resident of Malaysia, (b) have attended the Public Practice Programme organized by the MIA, (c) have 3 years of continuous audit experience (post-membership of the MIA) during the 4 years prior to submission of the application, and (d) attend and pass the Audit Licence Committee interview. The statutory auditor licence is required to be renewed every 2 years based on consideration of the licence application by the Audit Licence Committee. The Audit Licence Committee interview panel consists of 5 people and assesses the experience (competency) and maturity of individuals applying for an audit licence. The panel is chaired by the Deputy Accountant General and comprises representatives from the SC, Bank Negara Malaysia, CCM, and the MIA. Holders of audit licences are obliged to comply at all times with compliance with (a) MIA's continuous professional education requirement, (b) professional indemnity insurance requirements, (c) ISQC 1, and (d) practice review requirements.

Securities Commission Malaysia

Established on 1 March 1993 under the *Securities Commission Act 1993*, the SC is a self-funding statutory body with investigative and enforcement powers. It reports to the Minister of Finance and its accounts are tabled in Parliament annually. It has several important functions and underpinning these functions is its ultimate responsibility of protecting the investor. Apart from discharging its regulatory functions, the SC is also obliged by statute to encourage and promote the development of the securities and futures markets in Malaysia.

Although Malaysia has not undertaken the IMF/World Bank Financial Sector Assessment Programme (FSAP), the Securities Commission (SC), with regulatory authority for oversight of the capital market, has voluntarily undertaken independent assessments under the various standards set by the IMF/World Bank, and the International

Organization of Securities Commissions (IOSCO). The SC has also supported the move to comply with international best practices on accounting-related matters.

Companies Commission Malaysia

The Companies Commission of Malaysia (CCM) is a statutory body formed as a result of a merger between the Registrar of Companies (ROC) and the Registrar of Businesses (ROB) in Malaysia which regulates companies and businesses. CCM came into operation on 16 April 2002. The main activity of CCM is to serve as an agency to incorporate companies and register businesses as well as to provide company and business information to the public. As the leading authority for the improvement of corporate governance, CCM fulfils its function to ensure compliance with business registration and corporate legislation through comprehensive enforcement and monitoring activities so as to sustain positive developments in the corporate and business sectors in Malaysia. Among the important legislations under the purview of CCM, the Companies Act 1965 (Act 125) and the Limited Liability Partnerships Act 2012 (Act 743) are notable. The Companies Act has undergone massive revisions and is currently a Bill that has been tabled for approval.

The Limited Liability Partnership Act has significant implications for accounting practice in Malaysia. In 2011 CCM achieved yet another record compliance rate of 90.4 per cent since the implementation of Practice Note 1 in 2008 which requires submission of annual returns by non-exempt private companies to be accompanied by copies of their audited accounts in compliance with section 165 of the Company Act 1965. This remarkable performance is a testament to CCM's success in its balanced enforcement approach and educational programmes in heightening awareness among company directors to discharge their duties and responsibilities in accordance with the law (CCM, 2012). The implications for human resource development are discussed in Section V.

Apart from high profile enforcement action, CCM has been successful in the courts to convict many errant directors and other officers of a company for breaches of serious corporate governance offences (CCM, 2011). These include section 132 for breach of fiduciary duties, section 125 for acting as a director while still an undischarged bankrupt, section 364 for making false and misleading statements in documents, and section 366 for fraudulently inducing others to invest money (CCM, 2011).

Bank Negara Malaysia

Established on 26 January 1959 under the Central Bank of Malaysia Act 1958, the CBA 1958 has been repealed by the Central Bank of Malaysia Act 2009 which became effective on 25 November 2009. It is a statutory body wholly owned by the Government of Malaysia with the paid-up capital progressively increased, currently at RM100 million. The Bank reports to the Minister of Finance, Malaysia and keeps the Minister informed of matters pertaining to monetary and financial sector policy. One of the major roles of the Bank is its role in bringing about **financial system stability** and fostering a sound and progressive financial sector. It also plays a significant **developmental role**, including development of financial system infrastructure with major emphasis placed on building the nation's efficient and secured payment systems as well as the necessary institutions (including Securities Commission, Bursa Malaysia and Credit

Guarantee Corporation) which are important towards building a comprehensive, robust and resilient financial system. In this context, it is an important player in the MIA Council as well as the Malaysian Accounting Standards Board.

Malaysian Accounting Standards Board

The Malaysian Accounting Standards Board (MASB) was established under the Financial Reporting Act 1997 (the Act) as an independent authority to develop and issue accounting and financial reporting standards in Malaysia. The MASB, together with the Financial Reporting Foundation (FRF), make up the frameworks for financial reporting in Malaysia. These frameworks comprise an independent standard-setting structure with representation from all relevant parties in the standard-setting process, including preparers, users, regulators and the accountancy profession. The functions and powers of the MASB as provided under the Act include issuance of new accounting standards as approved accounting standards and review, revision or adoption of existing accounting standards as approved accounting standards; issuance of statements of principles for financial reporting. The Board comprises representations from the “big four” audit firms, preparers, an academic, professional accountancy bodies and observers from SC, CCM and BNM.

The MASB has had a project on Islamic financial reporting since its founding in 1997. The initial sentiment was that a separate, stand-alone set of Islamic standards was necessary to satisfactorily report Islamic transactions and events; and in 2001, the standard MASB *i-1* (later re-numbered FRS *i-1*), *Presentation of Financial Statements of Islamic Financial Institutions*, was issued.

However, subsequent staff research appeared to indicate that much of the conventional accounting concepts and generally accepted accounting principles could be applied to Islamic financial transactions and events albeit with additional disclosures to explain the use of Islamic contracts. Indeed, even MASB *i-1* (FRS *i-1*) was largely a reiteration of requirements already found in FRS 101, *Presentation of Financial Statements*, and FRS 108, *Accounting Policies, Changes in Accounting Estimates and Errors*. Therefore, after much consultations, namely with the Shariah Advisory Council of Bank Negara Malaysia, the MASB ceased its policy of issuing Islamic accounting standards and accordingly withdrew FRS *i-1*. Further, on 15 September 2009, the MASB issued Statement of Principles *i-1* (SOP *i-1*), *Financial Reporting from an Islamic Perspective* to affirm that MASB approved accounting standards shall apply to Shariah compliant financial transactions and events, unless there is a Shariah prohibition. This is also in line with aspirations of MASB to converge with IFRS and to align accounting for Islamic-based transactions to IFRSs. The human capacity development implications in terms of training to address capacity-building needs in respect of Islamic based transactions are addressed in Section V.

Audit Oversight Board

The Audit Oversight Board ("AOB"), which came into force on 1 April 2010, promotes and develops an effective audit oversight framework to promote confidence in

the quality and reliability of audited financial statements in Malaysia. Its key responsibilities encompass the implementation of policies and programmes to embed an effective audit oversight system in Malaysia and promote high professional standards of auditors and to improve the quality of audit services provided by auditors.

In accordance with Section 31V (1) of Part IIIA of the SCA, the registered audit firm and auditor will be subject to inspections by the AOB to assess the degree of compliance with the auditing and ethical standards by the auditor and the quality of the audit reports prepared by the auditor relating to the audited financial statements of the PIEs.

Since its establishment the AOB has made progressive efforts to enhance quality of the accounting profession. In its latest efforts it has instituted the Committee to Strengthen the Accountancy Profession (CSAP) under the auspices of the SC in April 2013. CSAP aims to formulate and recommend strategies and measures to strengthen the accountancy profession and to improve the contribution of the profession in enhancing the competitiveness of the country in line with the government's transformation agenda. This is in response to the findings from the 2012 ROSC: Malaysia (World Bank, 2012). The CSAP is chaired by the Audit Oversight Board chairman. This is further discussed in Section VII.

Higher education providers

Presently, there are over 600 higher education providers in the form of 20 public universities, 33 private universities and university colleges, 4 foreign university branch campuses, 22 polytechnics, 37 community colleges and about 500 private colleges registered with the MOHE. However, only 12 are recognized under Part I of Schedule 1, Accountants Act 1967 as shown in annex V.1. These HEPs produce graduates who have a direct route to become CA(M) after fulfilling three years of work experience.

The remaining HEPs either provide professional programmes such as ACCA, CIMA etc. which then take the students through the professional route under Part II of Schedule 1, Accountants Act 1967. (see annex V.2); or provide qualifications that enable students to continue to take the MIA QE as shown in figure V.1. MQA accreditation is required before any new programme is offered by the HEPs. In case of accounting related programmes, MQA seeks feedback from MIA in accrediting the programmes.

In sum, the MQA ensures that the entry requirements for professional accountancy education are met. Every provider of accounting education has to meet the requirements set by MQA. The entry requirements are set in the MQA's programme Standards which are tailored to the respective disciplines. Currently, the MQA Standard for Accounting is being developed by a task force comprising representatives from the public and private HEPs, MIA, and MASB. This Standard is expected to be finalized by the end of 2013.

The entry requirements are set reasonably high to ensure adequate quality of graduates and are not too high to deter entry into the profession. The institutional framework is conducive to ensure the efforts are well coordinated to implement strategies to assist the capacity-building efforts in the profession.

E. Issues regarding integration of international requirements in the national system

Human capacity-building initiatives

Competition for talent has intensified, many countries including Malaysia have adopted comprehensive and open policies in attracting the best talent. A skilled and knowledgeable workforce is the cutting edge of a nation's competitiveness. In this regard, Malaysia has implemented holistic measures to strengthen education and training systems, starting from early childhood to tertiary education. Aside from providing the best teaching and learning infrastructure, the MOE is also ensuring that the quality of teachers and educators are of a high level. As seen in figure V.2, the human capacity building initiatives involve many institutions including the MOE, HEPs, MIA, CCM, SC, BNM and MASB. In this section, the efforts undertaken by these institutions are discussed.

Challenges faced in the implementation of IES

MOHE and HEPs

For the accountancy sector, the efforts begun in 1999 when the MOHE established a Taskforce (known as Hala Tuju 1) to review the curriculum of the Bachelor of Accounting offered by public universities. The aim was to ensure the curriculum is appropriate to produce accounting graduates to meet the challenges of the new millennium. The taskforce, comprising Deans/persons directly in charge of the accounting programmes in the respective universities, representatives from MIA and MOHE, issued the *Hala Tuju 1 Report* in 2001 recommending three key changes:

- Revision of the curriculum to take account of IFAC's then International Education Guidelines (later formalized as International Education Standards in 2004);
- Extension of the period of study to four years²⁰² and incorporation of industrial attachment as a compulsory component of at least 3 months;
- English to be used as the language of instruction.

These recommendations were implemented in both public and private universities that sought MIA accreditation beginning 2002. This *Hala Tuju 1 Report* subsequently became the benchmark for MIA accreditation as well the MIA QE launched in 2003. Thereafter, substantial developments in the international environment (and issuance of IESs by IFAC, in 2005) prompted MOHE to re-establish the Hala Tuju taskforce to review the *Hala Tuju 1 Report* and reassess the accounting programmes in cooperation with the MIA. This taskforce, named Hala Tuju 2 taskforce, aimed to:

1. Raise the quality of accounting programme so as to be comparable with the standards of accounting programme at the international level;

²⁰² In 1996 The Ministry had mandated all programmes to be three years. Prior to that accounting programmes were for a duration of four years.

2. Ensure that the curriculum of the accounting programme in Malaysia met the current needs;
3. Enhance the effectiveness of the teaching and learning process.

The focus was on enhancing human capital and upgrading resources by:

- Designing a programme structure that fulfils the requirements of IFAC's IESs to ensure an increase of qualified, competent and globally recognized accountants;
- Producing accountants who possess the knowledge and professional, intellectual, technical, analytical, inter-personal, communicative, leadership and entrepreneurial skills;
- Preparing accountants with high level of competency and multi-skills to meet current needs;
- Attracting foreign students to the HEPs through an accounting education structure that is recognized internationally;
- Facilitating the Mutual Recognition Agreement among accounting professional bodies; and
- Ensuring continuous recognition by MIA through relevant and current curriculum.

The *Hala Tuju 2 Report* was issued in 2007(MOHE 2007) and implemented by HEPs in the 2007 academic session. The *Hala Tuju 2 Report* recommendations are summarized in annex V.3.

The Report recognizes the need for the incorporation of IESs in the undergraduate programmes. However, IES 5 and 6 relate to the post-graduation aspects of the professional accountants' training, through the work experience and competency assessment. The academic community through the *Hala Tuju 2 Report* expressed their desire to see the profession take up the remaining components of the education process of a professional accountant. Since 2007 the HEPs had made great attempts to use case studies in the accounting curriculum. An initiative by MOHE to enhance capacity-building in undergraduate programmes is to provide funding to MIA to develop integrated case studies.

Thus, the development of integrated case studies is on-going in collaboration with accounting academics and practitioners. The main objective is to develop cases that may be used by universities as part of teaching tools in the Integrated Case Study course. The second volume of the ICS book which contains 11 cases was published in March 2012. MIA has started its third round of ICS development and currently is in the second phase of reviewing the case contents. Twenty-two academicians and 8 practitioners have committed to write cases, out of which 18 are new case writers. Two workshops were carried out with the case writers to develop the new cases. MIA targets to print the third volume of the ICS book by December 2013.

In July 2012, the MOHE appointed the Hala Tuju 3 task force to review the *Hala Tuju 2 Report*. This taskforce is currently finalizing its report to be submitted by the end of 2013.

MIA's initiatives

MIA, an IFAC member, is obligated to ensuring compliance with all IFAC's International Education Standards for Professional Accountants (IESs). As discussed earlier, the curriculum review undertaken by the Hala Tuju taskforce ensures IES 1-4 are embedded in the undergraduate programmes. IES 5-8 are implemented by MIA through various mechanisms.

However, the IES requirements relating to the enhancement of the 3 year work experience and competency assessment were very slow to be implemented. In its preliminary report the Hala Tuju 3 taskforce observes that the recommendations of *Hala Tuju 2 Report* have not been effectively carried out by MIA. This observation is also similar to that made by the ROSC 2012. There are challenges for MIA to fully implement IESs, specifically IES 6 as discussed next.

The Accountants (Amendment) Act 2001, among other matters, conferred the designation of *Chartered Accountant* (CA) for MIA members. The introduction of the CA designation for the first time in Malaysia for MIA members raised a concern as to whether a mere change in name could achieve what is desired. As shown in figure V.1, Malaysian local graduates with three years' experience are eligible to be members of MIA and hence, be conferred the CA designation, and further be eligible to apply for a licence to practice from the Treasury, (if relevant experience in auditing is obtained in a public accounting firm). The thinking then was that if one presents himself/herself well, he or she can obtain the practice licence and start a (accounting) firm although he or she does not possess professional accounting qualifications (Lee, 2001).

The IES 6, *Assessment of Professional Capabilities and Competence*, specifies that it is the responsibility of IFAC member bodies to have in place assessment procedures that ensure candidates admitted to membership are appropriately qualified. It suggests a series of assessments might be made leading up to the final assessment of capabilities and competence. It suggests further that the final assessment of capabilities and competence is normally in addition to purely academic qualifications and is beyond undergraduate degree level.

The anomaly of the local graduate situation is highlighted in *Hala Tuju 2 Report*. Whilst, it was contended that the market will eventually force local graduates to accept the professional route to becoming a member of MIA, those who are not professionally qualified represent a significant segment of MIA membership (Devi, 2005). Thus, developments regionally in this globalization era, pose challenges and require a rethinking on the efficacy of the present model professional education in Malaysia.

The MIA response is the introduction of the CARE programme discussed in Section II. This structured scheme aims to monitor the prospective members' three-year relevant experience. In view of the IFAC requirement aforesaid, MIA has plans to incorporate the assessment of the persons' competency in the CARE programme. However, MIA's intention to embed a competency assessment within the CARE Programme to be conducted in the last six (6) months of CARE by employers at the workplace, which appears to be in line with the requirement of IES 6, has raised concerns as to its robustness and rigour in ensuring a comprehensive and holistic development and assessment of

competencies of the accounting graduates during the three year work experience (MOE, forthcoming).

The introduction of a robust system for the assessment of professional accountants in Malaysia is expected to be deliberated by the CSAP chaired by the AOB chairman as noted in Section IV. It is envisaged that the CSAP will consider, among others, the future demand for accountants in Malaysia, accountancy education and training as well as regulatory issues including the governance of the accountancy profession. It will consult relevant stakeholders on matters pertaining to the future direction of the Malaysian accountancy profession and how the profession could be more effective in supporting nation building. The CSAP members are representatives from the Ministry of Finance, Bank Negara Malaysia, Companies Commission of Malaysia, Accountant General Department and the Malaysian Institute of Accountants (Securities Commission, 2013). It is anticipated that the CSAP will take more proactive steps to address the issues identified above.

MIA's capacity-building efforts arising from practice review

MIA has initiated a revision of its practice review framework²⁰³ to strengthen its enforcement function. It has introduced remediation plans to facilitate practitioners to upgrade their technical knowledge and improve their capability and competence. Practitioners who fail their practice review for the first time are compelled to attend training courses conducted by the Institute's Professional Development department. The Institute adopts the stance that if the lack of technical knowledge is the root cause of the failure of practitioners, then remediation plans and action taken thereof may help but if failure is due to other reason such as shortage of staff and inability to compete for staff in the market place, then one should look at other viable solutions. If the root cause is due to the attitude of practitioners such as showing a lack of commitment to strengthen its capacity to build human resources due to high costs of doing so, then the practitioner must seriously examine his/her position and decide whether he/she should consider merger or cease practising altogether.

The Institute's practice review department has conducted training courses for ISQC 1 for several years as part of MIA's initiatives to enhance skill sets of practitioners. The majority of practitioners who attended the courses were mainly SMPs. The practitioners are also given insights to the conduct of practice review and the findings of the review. The close interaction between MIA and the practitioners during training courses of this nature has been helpful to the practitioners²⁰⁴.

²⁰³This revised practice review framework has been approved by MIA council subject to a legal review by external lawyers and its consequent amendments. An effective date for implementation of the revised framework will be decided at a future date.

²⁰⁴For the purpose of completeness, it is appropriate to mention that there are quite a number of departments within MIA which are actively and directly involved in the development of practitioners and audit personnel such as Professional development, CPE, FSR, Education, Professional Services and Practice, Public Practice Committee and IC .

Facilitating the IFRS convergence agenda

MASB's initiatives

Generally, promotion and education as well as continuously engagements with the relevant stakeholders are important to facilitate the convergence process, besides ensuring the relevant rules/regulations/infrastructure of relevant regulators are aligned as much as possible to the enable implementation of IFRSs. Competency in IFRS is an important element of capacity-building for Malaysian accountants. This is deliberated at length in *Hala Tuju 3* where MASB is also an active participant (MOE, forthcoming).

MASB has undertaken several initiatives to ensure the transition to full IFRS adoption is smooth. These are summarized as follows:

- Promoting Board's policy to stakeholders (pre-convergence): In October 2008, the MASB conducted road shows and dialogues and participated in forums/conferences to bring together stakeholders and interested parties on how they can embrace the convergence effort into their strategic and operational initiatives towards 2012 and beyond;²⁰⁵
- Dedicating a section in the website to discuss issues relating to "*Transition to IFRS – What You Need to Know*";²⁰⁶
- Issuing a technical release, TR 3 *Guidance on Disclosures of Transition to IFRSs* to guide entities in narrative disclosures in their annual reports during the transition period towards the application of IFRSs. The objective of the disclosures was to help investors and other users of financial statements to better understand the transition process;²⁰⁷
- Continuously engaging stakeholders (post-convergence): A dedicated section in the website was set up to provide answers to questions on Malaysia's convergence with IFRS;²⁰⁸
- Holding monthly teleconference with preparers and auditors so as to provide them a forum to raise questions in relation to the MFRS Framework;²⁰⁹
- Organizing forums/meetings with stakeholders of selected industries/standards, when necessary;²¹⁰
- Ensuring continuous education (post-convergence): The MASB secretariat publishes regular articles, both technical (on selected standards and upcoming standards) and non-technical (e.g. What AC Needs to Know and What Major Projects to Expect in 2013)²¹¹. It has embarked on providing online-learning of IFRS for Malaysian stakeholders;²¹²

²⁰⁵http://www.masb.org.my/index.php?option=com_content&view=article&id=1378&Itemid=67

²⁰⁶http://www.masb.org.my/index.php?option=com_content&view=article&id=1376&Itemid=63

²⁰⁷ http://www.masb.org.my/images/stories/files/tr3_15jul10.pdf

²⁰⁸http://www.masb.org.my/index.php?option=com_content&view=article&id=1685&Itemid=57

²⁰⁹http://www.masb.org.my/index.php?option=com_content&view=article&id=1706&Itemid=80

²¹⁰http://www.masb.org.my/index.php?option=com_content&view=article&id=1762&Itemid=31

²¹¹http://www.masb.org.my/index.php?option=com_content&view=category&id=67&Itemid=94

²¹²http://www.masb.org.my/index.php?option=com_content&view=article&id=1343&Itemid=65;

http://www.masb.org.my/index.php?option=com_content&view=article&id=1762&Itemid=31

- Holding public forums/seminars to share issues/provide updates on the existing/upcoming standards, either by MASB or jointly with other bodies;²¹³
- Participating at regional and international levels (post-convergence): Apart from national involvement, international/regional involvement is also important. In this context, MASB is working with other national standards-setter in sharing experience and issues²¹⁴. MASB participates actively in the newly formed regional standard setters grouping known as the Asian Oceanian Standard Setters Group (AOSSG) in 2009 (AOSSG, 2011).

Going forward, it is clear that countries in the region need to work together to provide input to the IASB standard setting process. Active participation by the MASB will assist in enhancing capacity-building in the accountancy profession. MASB is the leader for the AOSSG Islamic Finance working group.²¹⁵

MIA also closely monitors the global trends and developments affecting the local accountancy profession as well as the process of globalization and liberalization of trade in services at the multilateral, regional and bilateral levels, in order to assess their impact on our members. MIA, the Ministry of International Trade and Industry (MITI) and the MOF continue to cooperate closely on matters related to multilateral trade negotiations on trade in services for the Accounting, Auditing and Bookkeeping Services sector under the ASEAN Framework Agreement on Services sectors, and other Free Trade Agreements. Malaysia is currently negotiating either individually or as part of ASEAN. MIA continues to monitor the developments of all these negotiations to ensure that the position and interests of the accountancy profession are not compromised (MIA, 2012).

ASEAN Federation of Accountants (AFA)

MIA plays an active and leading role in the ASEAN Federation of Accountants (AFA) and retained the Presidency until December 2011. During the review period, four AFA Council meetings were held with MIA hosting one of these meetings in November 2011. MIA also hosted the MIA – AFA Conference from 2 – 3 November 2011, attended by both local and international participants.

Mutual recognition of qualifications/certifications

MIA is also responsible in paving the path for getting MIA members to be globally recognized through MRAs with other Professional Accounting bodies. Two MRAs are already in place with *Ikatan Akuntan Indonesia* and CPA Australia with plans for more arrangements with other bodies.

In building good relations with its foreign counterparts, MIA hosts visits from professional accounting bodies as well as pay visits to other foreign professional bodies.

²¹³http://www.masb.org.my/index.php?option=com_content&view=article&id=1551&Itemid=18

²¹⁴<http://www.aossg.org/about-us>

http://www.masb.org.my/index.php?option=com_content&view=article&id=1564&Itemid=21

²¹⁵http://www.masb.org.my/index.php?option=com_content&view=article&id=1618&Itemid=87

These visits have resulted in close relationships being established, culminating in formalization of these relationships through Memorandums of Understanding (MoUs) with bodies like Indonesian Institute of Accountants and the Kampuchea Institute of Certified Public Accountants and Auditors (KICPAA).

These efforts are in line with the the Bali Concord II adopted at the Ninth ASEAN Summit held in 2003 calling for completion of Mutual Recognition Arrangements for qualifications in major professional services by 2008 to facilitate free movement of professional/skilled labour/talents in ASEAN. This further supports the ASEAN Economic Community (AEC) which is the regional economic integration by 2015. AEC envisages the following key characteristics: (a) a single market and production base, (b) a highly competitive economic region, (c) a region of equitable economic development, and (d) a region fully integrated into the global economy. The formation of AEC has accelerated efforts to enhance cooperation in human resources development and capacity-building; recognition of professional qualifications; closer consultation on macroeconomic and financial policies; trade financing measures; enhanced infrastructure and communications connectivity; development of electronic transactions through e-ASEAN; integrating industries across the region to promote regional sourcing; and enhancing private sector involvement for the building of the AEC. It is believed the AEC will transform ASEAN into a region with free movement of goods, services, investment, skilled labour, and freer flow of capital²¹⁶.

F. Other participants in the supply chain

Implementation of Code on Corporate Governance for Listed Companies

Malaysia embarked on extensive corporate governance reforms since 1998. Key reforms included introduction of a code of corporate governance and immediate steps to implement changes in the composition and role of board of directors. Out of 10 recommendations to strengthen corporate governance embodied in the Capital Market Master plan, nine have been implemented since 2004. These included strengthening of disclosure rules, corporate whistle-blower protection and major reforms to overhaul government-linked corporations (GLCs).

Malaysia voluntarily agreed to be assessed under the Corporate Governance (CG) ROSC (CG ROSC) by the World Bank in 2005, based on a methodology that is benchmarked against the internationally accepted OECD Principles of Corporate Governance. Malaysia has published the CG ROSC that was completed in 2005.

Overall, Malaysian compliance with the CG ROSC principles are at a high level. Malaysia has fully observed one of the 32 benchmarks (on accounting standards) and has largely observed nearly all of the benchmarks under the six categories of methodology (81 per cent of 32 benchmarks). Since then, Malaysia continued to close the gaps on the remaining shortcomings, the most significant being amending the Companies Act 1965 (CA) to address gaps in related-party transactions, penalties for contravention by directors, private enforcement capacity of investors and disclosure; amending the listing requirements for stricter disclosures by listed companies; implementing measures to

²¹⁶<http://www.asean.org/communities/asean-economic-community> Accessed on 30 August 2013

expand the role of the audit committee in line with international best practices; the Capital Market and Services Act 2007 enhancing the effectiveness of regulatory oversight of the SC by empowering it to institute civil proceedings; and transforming GLCs into high-performing entities and upgrading of GLC boards.

Adoption of IOSCO Code

Following the release of the revised IOSCO Code, the domestic credit rating agencies (CRAs), Rating Agency of Malaysia (RAM) and Malaysian Rating Corporation Berhad (MARC) have adopted the revised IOSCO Code in their own code of conduct. The updated codes, published in early 2009, broadly aimed at enhancing standards and conduct of credit rating agencies in the quality and integrity of the rating process, CRA independence and avoidance of conflicts of interest, CRA responsibilities to the investing public and issuer, and disclosure of the code of conduct and communications with market participants.

An important initiative undertaken by MIA and SC is the establishment of the Financial Reporting Standards Implementation Committee (FRSIC) in January 2007 to provide implementation guidance to preparers and auditors on issues arising from adoption of IFRSs. To this end, MIA receives support from the Capital Market Development Fund. The main objective of FRSIC is to facilitate the implementation of IFRSs in Malaysia.

Further, Bursa Malaysia, Securities Commission and Bank Negara regularly conduct training programmes for the other participants in the supply chain such as board of directors, audit committees, internal auditors and others. Additionally, public listed companies also engage their own consultants regularly to update their employees. The CCM has mandatory training for directors of companies. The Accountant General Office has further embarked on capacity-building for the public sector accountants in moving forward to accrual accounting and adoption of IPSAS by 2015²¹⁷.

Corporate social reporting and the sustainability agenda

The Malaysian Prime Minister in his 2006 budget speech announced the mandatory CSR disclosures by listed companies. The Bursa Malaysia has since taken steps to make CSR an integral part of the way Malaysian listed companies function as a business, and of the process of planning and mapping out their future strategies. It has issued the CSR Framework to guide Malaysian companies. It conducts workshops and training to educate companies' management and boards to understand sustainability issues. Case studies are made available to facilitate the education and training of the key players in the business sector.

The Business Council for Sustainability and Responsibility Malaysia was launched during the Corporate Governance week 2011 by Bursa Malaysia. It is a merger between two leading Malaysian business organizations on sustainability development – the Business Council for Sustainable Development set up in 1993; and the Institute of

²¹⁷ <http://www.undp.org.my/uploads/Speech%20-%20KM%20UNDP%20GSSC%20-%20IPSAS%20announcement%20final%20July%2018%202011.pdf> Accessed on 30 September 2013

Corporate Responsibility set up in 2006. This organization embraces 51 leading national companies and subsidiaries of foreign enterprises, including 40 per cent of the top companies listed in Bursa Malaysia. The organization has endeavoured to raise local corporate standards to international best practices, specifically, undertaking a broad spectrum of activities involving advocacy, thought leadership and capacity-building. It works closely with the World Business Council for Sustainable Development and other regional networks.

G. Capacity-building needs

Current deliberations with stakeholders by the Hala Tuju 3 taskforce has raise several issues that of concern and require action by all parties concerned. The observations are (MOE, forthcoming):

- Lack of knowledge of international standards and practices among academics who are teaching in the Universities. Thus in the recommendations that have been proposed, the following take precedence:
 - Adopt a framework based teaching of IFRSs;
 - Introduce more flexible programmes that allows each HEP to focus on their respective niche areas;
- Issues with convergence:
 - Enhancing English competency;
 - Issues with translation;
 - Differential regime- needs of SME users;
 - Islamic based transactions;
 - Participation in standard setting;
 - Effective teaching of IFRS;
 - Training the trainers workshops.

With the support of the MOE, serious efforts are taken to include international standards in the education system as illustrated by the *Hala Tuju 3 Report*. The education system for higher education has comprehensively taken into account the international angle and principles-based nature of standards that require the use of professional judgment.

The issue of shortage of professional accountants/auditors is being addressed by the MIA and also the Accountant General's Office in the light of their transition to IPSAS. However, the following concerns still require immediate attention by the regulators (CSAP, 2013):

- (a) Insufficient number of professional accountants/auditors, some sectors are more affected such as the public sector;
- (b) Difficulties to determine an adequate number of accountants and therefore to assess the gap;
- (c) Lack of incentives for retaining professional accountants/auditors in the country. Despite their best efforts, accounting firms – especially their audit

practices – continue to report high attrition and turnover rates, which have generally been attributed to intense competition from within and outside Malaysia for a limited pool of accounting talent, as well as intense pressures faced by the staff in a dynamic and highly challenging environment.²¹⁸

The Hala Tuju 3 committee recognizes that professional examinations do not always represent good international practice. Therefore, it has suggested that MIA institute a robust system that adequately develops the competencies of graduates using the workshop approach and assess them in the third year of work experience using a comprehensive case before admission as members (MOE, forthcoming). Further, Talent Corporation is an initiative by the Government to address the challenge of improving the talent pool available for the Malaysian jobs market. It has worked with the profession to highlight shortages within key sectors and attract or retain the necessary talent, supporting the Government's Economic Transformation Programme (ETP) and helping raise the standards of the work force²¹⁹.

Fortunately, the MIA Council comprises of all the relevant stakeholders in the supply chain. Therefore, it is less of an issue when it comes to exchange of information and the process for interaction. Meanwhile there are less difficulties in achieving coordination at the country level as seen in the above discussion as shown in figure V.1. The universities under the direction of MOE work together with the profession to enhance the quality of graduates by aligning to the needs of the international community and ensuring graduates are able to compete globally. In fact the *Hala Tuju Reports* serve as benchmarks for MIA accreditation of new accounting programmes offered by universities.

With the full support of the MOE and the MOF, issues of funding and sustainability of key institutions for example universities and the professional accounting organizations and MIA are not significant. Instead, many initiatives are encouraged by the SC to enhance the accountancy profession. The latest effort is in the setting up of a committee to strengthen the accountancy profession- the CSAP discussed in section IV.

Proposals to amend governance and competency framework

MIA has spearheaded a review of its governance and competency framework to strengthen the accountancy profession aimed at creating a conducive environment for accountants to 'flourish' in terms of enhancement of quality and enhancement of skills sets, thus fulfilling the needs of the nation's transformation agenda²²⁰. A Discussion Paper issued on 29 August 2013 aims to get feedback to improve the current governance framework. However the competency framework has not been addressed in this Discussion Paper. It is envisaged the final reforms will ensue following the completion of discussions by CSAP.

²¹⁸ <http://www.accaglobal.com/content/dam/acca/global/PDF-technical/other-PDFs/talent-attraction-malaysia.pdf>

²¹⁹ <http://www.accaglobal.com/databases/pressandpolicy/malaysia/3538406>

²²⁰ [http://www.mia.org.my/new/downloads/news/national/2013/08/29/Government_Structure_Review_Task_Force_-_Discussion_Paper_\(Final\).pdf](http://www.mia.org.my/new/downloads/news/national/2013/08/29/Government_Structure_Review_Task_Force_-_Discussion_Paper_(Final).pdf)

H. Lessons learned

The Malaysian experience provides useful lessons that may be considered by other countries. There is a conscious effort by the profession led by MIA to align to the aspirations of the nation's economic transformation programmes. The Malaysian institutional setting provides a conducive environment to harness the expertise and input from relevant stakeholders to address capacity-building for the accountancy profession. The 2012 ROSC: Malaysia provided impetus to address some of the shortcomings with the help of the universities and the industry. Key lessons from the Malaysian experience are as follows:

- Capacity-building for the profession is a concerted and coordinated effort of the MOE, MOF, MIA, SC, CCM, the employers, industry and the Universities;
- National level coordination is achieved by ensuring the key stakeholders are represented in the MIA Council;
- Government support is ample and adequate to ensure sustainability of the universities to produce quality graduates to meet manpower needs for the success of the Economic Transformation Programmes;
- Engagement at international and regional level to ensure practices is well benchmarked.

I. Conclusions and outlook

The Government's plans to make Malaysia a developed nation by 2020 is driven by the Economic Transformation Agenda, supplemented by the Malaysian Education Blueprint and the Malaysian Higher Education Graduates Employability Blueprint. Whilst it is good to have carefully laid out plans, the success lies in the implementation. It is still too early to say how well the transformation has occurred but certainly the signs are positive at least from the aspect of capacity-building in the accountancy profession. It is expected that the *Hala Tuju 3 Report* which is expected at the end of 2013 will set the directions forward for the capacity-building at the universities and subsequent competency enhancement and assessment by the profession to produce world class accountants. The Report from CSAP is also expected to provide further insights for moving the accountancy profession.

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Annex V.1. University degree programmes listed in the First Schedule of the Accountants Act (1967)

- i. Final examination of the University of Malaya for the Diploma Perakaunan (Diploma in Accounting);
- ii. Final examination of the University of Malaya for the Ijazah Sarjana Muda Perakaunan (Degree of Bachelor of Accounting);
- iii. Final examination of the Universiti Kebangsaan Malaysia for the Ijazah Sarjana Muda Perakaunan (Kepujian) (Degree of Bachelor of Accounting (Honours));
- iv. Final examination of the MARA Institute of Technology for the Diploma Lanjutan Perakaunan (Advanced Diploma in Accountancy);
- v. Final examination of the Universiti Teknologi MARA for the Ijazah Sarjana Muda Perakaunan (Degree of Bachelor of Accounting);
- vi. Final examination of the Universiti Utara Malaysia for the Ijazah Sarjana Muda Perakaunan (Kepujian) (Degree of Bachelor of Accounting (Honours));
- vii. Final examination of the Universiti Pertanian Malaysia for the Ijazah Bacelor Perakaunan (Kepujian) (Degree of Bachelor of Accounting (Honours));
- viii. Final examination of the Universiti Putra Malaysia for the Ijazah Bacelor Perakaunan (Kepujian) (Degree of Bachelor of Accounting (Honours));
- ix. Final examination of the Universiti Islam Antarabangsa for the Ijazah Sarjana Muda Perakaunan (Kepujian) (Degree of Bachelor of Accounting (Honours));
- x. Final examination of the Universiti Sains Malaysia for the Ijazah Sarjana Muda Perakaunan (Kepujian) (Degree of Bachelor of Accounting (Honours));
- xi. Final examination of the Universiti Utara Malaysia for the Degree of Bachelor of Accounting (Honours)(Information System), [Subs. P.U.(A) 281/2007]
- xii. Final examination of the Universiti Tenaga Nasional for the Degree of Bachelor of Accounting (Honours), the academic programme for which first commenced from the academic year 2002/2003 onwards; [Am. P.U.(A) 281/2007]
- xiii. Final examination of the Universiti Multimedia for the Degree of Bachelor of Accounting (Honours), the academic programme for which first commenced from the academic year 2002/2003 onwards; [Am. P.U.(A) 281/2007]
- xiv. Final examination of the Kolej Universiti Sains dan Teknologi Malaysia for the Degree of Bachelor of Accounting (Honours);
- xv. Final examination of the Universiti Malaysia Sabah for the Degree of Bachelor of Accounting (Honours). [Ins. P.U.(A) 281/2007]

Public universities 10 + 3(universities have 2 programmes accredited)

Private universities 2

Annex V.2. Recognized professional bodies listed in the first schedule of the Accountants Act (1967)

1. Malaysian Association of Certified Public Accountants (now known as Malaysian Institute of Certified Public Accountants, MICPA);
2. Institute of Chartered Accountants of Scotland;
3. Institute of Chartered Accountants in England and Wales;
4. Institute of Chartered Accountants in Ireland;
5. Association of Chartered Certified Accountants (United Kingdom);
6. Institute of Chartered Accountants in Australia;
7. Australian Society of Certified Practicing Accountants;(now known as CPA Australia)
8. New Zealand Chartered Accountants;
9. Canadian Institute of Chartered Accountants;
10. Institute of Chartered Accountants of India;
11. Chartered Institute of Management Accountants (United Kingdom)

Annex V.3. Hala Tuju 2 recommendations: A summary

Recommendations	
<p>1. Redesign of the Accounting Programme Curriculum</p>	<p>A number of changes to improve the curriculum as follows:</p> <ul style="list-style-type: none"> • Learning Outcomes for the Accounting Programme: <ul style="list-style-type: none"> ○ Technical knowledge: accounting, finance and related areas- organization, business and information technology (IT) ○ Professional skills: intellectual, technical, analytical, inter-personal, communication, leadership and entrepreneurship ○ Organizational and business management ○ Ethical values and professional conduct • Course Learning Outcomes: The learning outcomes were developed for each course to support the achievement of learning outcomes of the programme. • Programme Structure: A number of improvements introduced to meet all the requirements of IESs: <ul style="list-style-type: none"> ○ Integrated case study as a core course in the final semester to enable students to be assessed of their required competencies (similar to that suggested by IES 6 for professional bodies) ○ Courses related to Organizational behaviour (IES 3) ○ Flexibility through 12 units of electives for the purpose of multi-disciplines or specialization; ○ Exposure to international business and globalization (IES 2) ○ Ethics an corporate governance (IES 4) ○ Industrial training for 6 months (IES 3) ○ Embedding IT through the use of accounting software across courses (IES 2 and IES 3) • Course contents: Course content of the accounting programme to take account of IES 2 requirements to ensure content is relevant, comprehensive and consistent with programme learning outcomes: <ul style="list-style-type: none"> ○ Curriculum is developed based on Bloom's taxonomy encompassing the following competency levels: <ul style="list-style-type: none"> ▪ Knowledge ▪ Comprehension ▪ Application ▪ Analysis ▪ Synthesis

	<ul style="list-style-type: none"> ▪ Evaluation ▪ Integration of IT into every subject ▪ Focus on local and international issues ▪ Inclusion of 12 units of electives • Teaching pedagogy: change in teaching pedagogy to include <ul style="list-style-type: none"> ○ Student centred learning ○ Problem based learning ○ Focus on <ul style="list-style-type: none"> ▪ Self-study ▪ Analytical thinking ▪ Proactive attitude ▪ Self confidence ▪ Communication skills ▪ Teamwork skills • Student Assessment System to be enhanced based on: <ul style="list-style-type: none"> ○ Formative concept of Bloom’s taxonomy ○ Structured learning through: <ul style="list-style-type: none"> ▪ Independent study ▪ Active learning processes ▪ Analytical thinking processes ▪ Effective writing ability ▪ Effective oral communication ○ Inculcating life-long learning attitude and continuous self-development (IES 7)
2. Establishment of cooperative linkages with industry and the accounting profession	<p>The HEPs were encouraged to establish cooperation with the industry and the profession:</p> <ul style="list-style-type: none"> • Placement for industrial training for students • Industrial attachment for lecturers • Sharing expertise and skills in the assessment of curriculum, collaboration in research and development of case studies • Opening of branches of audit firms on campus to provide training for students and for research.
3. Changes to education and staff development policies	<p>A number of policy changes were recommended to be introduced:</p> <ul style="list-style-type: none"> • Development of expertise <ul style="list-style-type: none"> ○ Recruitment policies based on: <ul style="list-style-type: none"> ▪ PhD and research; and ▪ Experience and professional qualifications ○ Industry attachments during the sabbatical leave to enable lecturers to gain industry experience ○ Developing expertise in case-writing • Rewards and Incentives to attract accounting practitioners <ul style="list-style-type: none"> ○ Incentives for professional membership ○ Recognition for promotion

	<ul style="list-style-type: none"> • Teaching and learning <ul style="list-style-type: none"> ○ Improving infrastructure and facilities such as: <ul style="list-style-type: none"> ▪ Seminar rooms for small classes ▪ Low lecturer to student ratio: 1:15 ▪ Classes conducted by professional accountants ○ Provision of special funds for <ul style="list-style-type: none"> ▪ Attending seminars and professional workshops ▪ Developing case studies
<p>4. Control mechanism: Creating a control mechanism to ensure that the quality of the accounting programme is in line with international standards</p>	
<p>5. Streamlining the Path to become a Chartered Accountant: to increase the role of MIA by incorporating the following aspects:</p>	<ul style="list-style-type: none"> • Regulating and monitoring the requirement for three years' work experience acquired after graduation in line with IES 5 requirement before they can be recognized to ensure that the experience gained is appropriate for the expertise development of accountants; • Implementing the competency assessment for purposes of the recognition of accountants in line with IES 6 requirements; • Using <i>Hatauju 2 Report</i> as a benchmark for the accounting programme.

Source: MOHE (2007).

Acronyms

Acronym	Definition
ACCA	Association of Chartered Certified Accountants
AFA	ASEAN Federation of Accountants
AOB	Audit Oversight Board
ASEAN	Association of South East Asian Nations
ASSOG	Asian Oceanian Standard Setters Group
BNM	<i>Bank Negara Malaysia</i> (Central Bank of Malaysia)
CARE	Chartered Accountant's Relevant Experience
CCM	Companies Commission of Malaysia
CIMA	Chartered Institute of Management Accountants
CMDF	Capital Market Development Fund
CPA	Certified Practising Accountant
CPD	continuous professional development
CPE	Continuous Professional Education
CRA	Credit Rating Agencies
CSAP	Committee to Strengthen the Accountancy Profession
ETP	Economic Transformation Programme
FRF	Financial Reporting Foundation
FRS	Financial Reporting Standards
FRSIC	Financial Reporting Standards Implementation Committee
FSAP	Financial Sector Assessment Programme
FSR	Financial Statements Review
GAAP	Generally Accepted Accounting Principles
GLC	Government-linked corporations
HEP	Higher Education Providers
ICS	Integrated Case Study
IES	International Education Standards
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
IOSCO	International Organization of Securities Commissions
IPSAS	International Public Sector Accounting Standards
ISA	International Standards on Auditing
ISQC	International Standard on Quality Control
KICPAA	Kampuchea Institute of Certified Public Accountants and Auditors
KLSE	Kuala Lumpur Stock Exchange
LAN	<i>Lembaga Akreditasi Negara</i> (National Accreditation Board)
MARA	<i>Majlis Amanah Rakyat</i>
MARC	Malaysian Rating Corporation Berhad
MASB	Malaysian Accounting Standards Board
MFRS	Malaysian Financial Reporting Standards
MIA	Malaysian Institute of Accountants
MICPA	Malaysian Institute of Certified Public Accountants
MITI	Ministry of International Trade and Industry

Acronym	Definition
MOE	Ministry of Education
MOF	Ministry of Finance
MOHE	Ministry of Higher Education
MQA	Malaysian Qualifications Agency
MQF	Malaysian Qualifications Framework
NEM	New Economic Model
NKEA	National Key Economic Areas
OECD	Organization for Economic Cooperation and Development
PEMANDU	Performance Management and Delivery Unit
PERS	Private Entity Reporting Standards
PTPTN	<i>Perbadanan Tabung Pendidikan Tinggi Nasional</i> (National Higher Education Fund Corporation)
QAD	Quality Assurance Division
RAM	Rating Agency of Malaysia
ROB	Registrar of Businesses
ROC	Registrar of Companies
ROSC	Report on the Observance of Standards and Codes (World Bank)
SCA	Securities Commission Amendment Act
SME	Small and Medium Enterprises
SMP	Small and Medium Practitioners
SOP	Statement of Principles
YTAR	Yayasan Tunku Abdul Rahman

Chapter VI. Case Study of the Russian Federation²²¹

A. Introduction and background

The Russian Federation²²² is a federal semi-presidential republic, comprising 83 federal subjects. At 17,075,400 square kilometres, the Russian Federation is the largest country in the world, covering more than one eighth of the Earth's inhabited land area. The Russian Federation is also the world's ninth most populous nation with 143 million people as of 2012²²³. Extending across the entirety of northern Asia and much of Eastern Europe, the Russian Federation spans nine time zones and incorporates a wide range of environments and landforms.

The Russian economy ranks as the eighth largest by nominal GDP and sixth largest by purchasing power parity²²⁴. The Russian Federation is currently labelled a developing country by the International Monetary Fund and the World Bank. The country has an abundance of natural resources, including timber, precious metals, and particularly fossil fuels (oil, natural gas, and coal) that can be developed without the constraint of Organization of the Petroleum Exporting Countries (OPEC) production quotas and other rules²²⁵. In recent years, the Russian Federation's oil and gas production and pipeline projects have been not only a primary source of the Russian Federation's economic growth, but also a geostrategic lever in the country's relationship with Europe and Asia²²⁶.

Since the collapse of the Soviet Union, the Russian Federation has undergone significant changes, moving from a centrally planned economy to a more market-based and globally integrated economy. In late 2008 and early 2009, the Russian Federation experienced the first recession after 10 years of experiencing a rising economy, until stable growth resumed in late 2009 and 2010. Despite the deep but brief recession, the economy has not been as seriously affected by the global financial crisis, largely because of the integration of short-term macroeconomic policies that helped the economy survive, as well as low levels of sovereign debt. Qualitative and quantitative changes in the economy are presented based on the country's Gross Domestic Product (GDP) growth, shown in figure VI.1.

²²¹ This case study was prepared and edited by the UNCTAD secretariat based on substantive input provided by Professor Roza Kaspina, Kazan Federal University, Russian Federation.

²²² The Constitution of the Russian Federation. 1993. Available at: <http://www.constitution.ru/en/10003000-01.htm>.

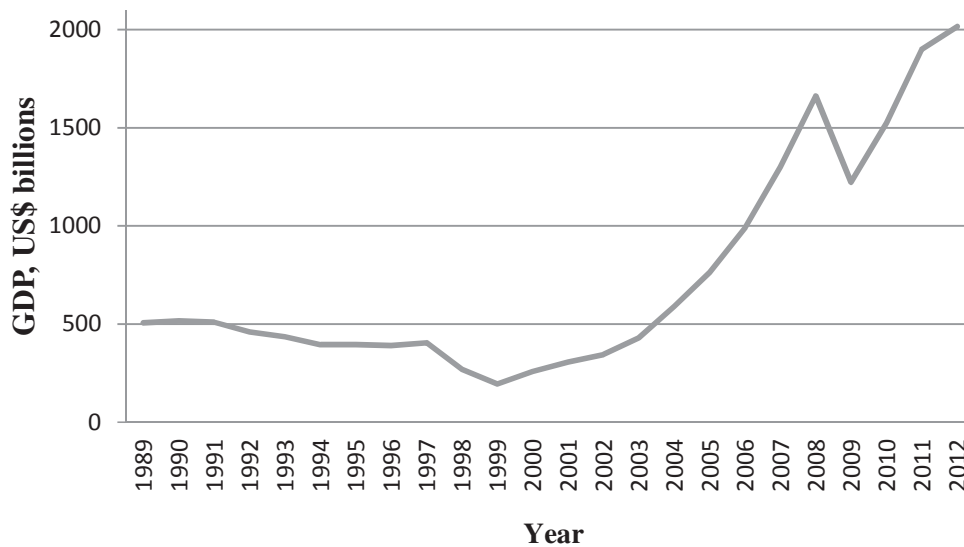
²²³ Encyclopaedia Britannica. 2013. Russia. Available at: <http://www.britannica.com/EBchecked/topic/513251/Russia>.

²²⁴ The World Bank. 2013. World Development Indicators. Available at: <http://databank.worldbank.org/data/views/reports/tableview.aspx>.

²²⁵ Organization of the Petroleum Exporting Countries . 2013. About OPEC. Available at: http://www.opec.org/opec_web/en/press_room/178.htm.

²²⁶ Vatansever, A., 2010. Russia's Oil Exports: Economic Rationale Versus Strategic Gains. Energy and Climate Program, 116. Available at: http://carnegieendowment.org/files/russia_oil_exports.pdf.

Figure VI.1
GDP dynamics in the Russian Federation in 1989–2012



Source: The World Bank. 2013. *Russian Federation Data*. Available at: <http://data.worldbank.org/country/russian-federation>.

At present there are 10 stock exchanges in the Russian Federation. However, the actual trading of securities takes place only in 4 of them: Moscow Stock Exchange, Ural Regional Currency Exchange, St. Petersburg Currency Exchange, St. Petersburg Stock Exchange. The largest stock exchange in the Russian Federation is of the Moscow Stock Exchange. As of December 2012, it was listed in the top-20 world stock exchanges by market capitalization with the total value of US\$825 billion.²²⁷

The accounting and auditing professions have been in existence in the Russian Federation for many centuries. The development of financial statements also has deep historical roots, but it started to play an essential role with the emergence of joint-stock companies and segregation of the companies' shareholders from the management. Nowadays in the Russian Federation accountants play key roles in the management of economic entities.

The market for audit services in the Russian Federation has begun its development in the middle of 2000, when companies started becoming public by entering the stock exchange. From this time, the business environment, legislation and financial reporting requirements, which auditors must take into account in their work, are constantly changing. Furthermore, these factors in the Russian Federation are changing even faster than they do in other countries, which have longer history of development of market economy and auditing activities.

²²⁷ World Federation of Exchanges. 2013. Monthly Reports. Available at: <http://data.worldbank.org/country/russian-federation>.

In Soviet times the key features of accounting education included academicism, unitarianism and authoritarianism. Academicism implied that students should have studied a number of important disciplines in order to broaden their minds. Unitarianism intended to consolidate the educational process and the contents of all disciplines throughout the country. Authoritarianism meant that the educational process is fully subordinated to the authority of the teacher. Now other educational principles guide the process. Ten years ago the process of obtaining an audit qualification was fundamentally different from the process today. In 2003, the Russian Federation adapted the Bologna process. During the transition to a two-level education (Bachelor, Master) the requirements for the entire system of accounting education have changed significantly. The requirements for the quality of education have also been increased. The competence-based approach is now being applied, which implies willingness of an individual to perform the professional responsibilities, as well as to adapt to the rapidly changing environment.

During the last eight years the Russian accounting standards have changed significantly. One of the main changes is the introduction of the "compliance with International Financial Reporting Standards" principle in preparation of consolidated financial statements of public entities. This development has increased the demand for auditors who possess the necessary skills to perform the audit of such financial statements.

The changes in the institutional and legal framework, introduction of IFRS together with the insufficient level of English language among professional accountants and auditors lead to the consequence that Russian auditors require much more professional training than their colleagues working in more stable environment. Therefore continuous training is essential for Russian accountants to obtain and develop relevant skills and professional experience necessary for their work, wherein an accountant is also required to comply with a code of professional ethics.

The main objective of this case study is provide an overview of all participants involved in developing human capacity required for high-quality corporate accounting and reporting in the Russian Federation. However, more the case study is more focused on the controlling and monitoring sides of corporate reporting related to the auditing profession.

B. The national education system of the Russian Federation

Overview

The national education system in the Russian Federation is based on the Federal Law "On Education in the Russian Federation № 273-FZ" of December 29, 2012. In accordance with law ²²⁸, education is divided into the following types:

- (a) General;
- (b) Vocational;
- (c) Additional (training programmes, retraining, MBA);
- (d) Training, that provides continuous education during lifetime.

²²⁸ The Federal Law № -273. 2013. *On Education in the Russian Federation*. Article 10, paragraph 2. Available at: <http://www.zakonrf.info/zakon-ob-obrazovanii-v-rf/10>

The Russian system has the following levels of professional accounting education:

- (a) Secondary vocational education (SVE);
- (b) Higher education – bachelor;
- (c) Higher education – master;
- (d) Higher education – training of highly qualified personnel.

The system of accounting education is based on the federal State educational standards and requirements, as well as on the educational programmes of different types, levels and purposes in order to ensure the harmonization of the educational environment in Russian Federation²²⁹. Educational programmes are divided into basic and advanced. The Law on Education in the Russian Federation defines common mandatory requirements for the implementation of the main education programmes. The mechanisms of development, enactment and introduction of the amendments in federal standards are established by the Government of the Russian Federation.

The content of education in the Russian Federation is aimed at:

- (a) Promoting mutual understanding and cooperation between people, nations, irrespective of race, nationality, ethnicity, religion or social status;
- (b) Taking into account the variety of philosophical approaches;
- (c) Promoting the realization of the right of students for free choice of opinions and beliefs;
- (d) Providing the development of each individual, the formation and development of his/her personality.

Entering the auditing and accounting professions

For the purposes of this study, interviews with the members of the professional community and managers were conducted in order to determine the entry requirements for the audit and accounting professions in the Russian Federation. However, it turned out to be a controversial issue since understanding of initial "entry" into the profession can be different: it can be university enrolment, employment or obtaining of a qualification certificate.

Entry into the profession starts from the university, when an applicant is studying specialized courses, including those in audit and accounting. Many students combine university studies with work in audit firms. Senior students who have work experience are allowed to take an auditor qualification exam, while their knowledge is still fresh.

²²⁹ The Federal Law № -273. 2013. *On Education in the Russian Federation*. Article 10, paragraph 1. Available at: <http://www.zakonrf.info/zakon-ob-obrazovanii-v-rf/10/>

Auditing profession: definition, requirements, entry process

In the Russian Federation, an auditor is an individual who has successfully passed the qualification exam, who became a member of an SRO and who is included into the unified register of auditors. An SRO is a non-commercial organization, funded through the membership fees. The auditor should have excellent reputation, high-quality basic education and sufficient practical experience in auditing – at least three years of work experience, with at least two of the last three years related to the work in an audit firm. More information on the requirements to auditors can be found in Clarification effects of the legislation of the Russian Federation and other legal acts, which regulate the auditing profession²³⁰.

The register of SROs of auditors is available on the website of the Ministry of Finance of the Russian Federation.²³¹ Currently five SROs are registered in the Russian Federation on the basis of the Federal law on Self-regulatory Organizations:

- (a) Audit Chamber of the Russian Federation;
- (b) Institute of Professional Auditors;
- (c) Moscow Audit Chamber;
- (d) Russian Association of Auditors;
- (e) Auditing Association "Commonwealth".

The number of registered SROs is considered sufficient for the normal functioning of the audit profession and to safeguard the interests of consumers of audit services, as well as of the users of the financial statements. More information on the financial performance of Russian SROs can be found in annex VI.1.

Since 2005, a number of changes have taken place in the Russian system of audit and the formation of the audit profession. Prepared in the framework of the Technical Assistance to the Commonwealth of Independent States (TACIS) project "Implementation of the reform of the audit in the Russian Federation", the "White Book" describes the procedure for organization of the auditors' certification system in the Russian Federation in the long term (this project was funded by the European Union).²³²

The process of improving the quality of Russian auditors is targeted not only at eliminating the defects in the existing system of training of auditors and their certification process, but also at addressing the interrelation with the new requirements for the development of the financial reporting system in the Russian Federation. The country has adopted the Federal Law "On Auditing"²³³ and the Federal Law "On the Consolidated Financial Statements"²³⁴ of public companies and banks. These documents impose high

²³⁰ Audit Council of the Russian Federation. 2013. Minutes of the meeting on 26 March 2013. Available at: http://www1.minfin.ru/common/img/uploaded/library/2013/04/Protokol_8_ot_26_marta.pdf.

²³¹ Ministry of Finance of the Russian Federation. 2013. State register of self-regulating organizations of auditors as of October 23, 2013. Available at: http://www1.minfin.ru/ru/accounting/reestr_selfreg/reestr/.

²³² Ministry of Finance of the Russian Federation. 2005. The White Book. Available at: http://www1.minfin.ru/common/img/uploaded/library/2005/12/05_07_17_white_paper_on_attestation_v15.pdf.

²³³ The Federal Law № 307. 2008. *On Auditing*. Available at: <http://www.rg.ru/2008/12/31/audit-dok.html>.

²³⁴ The Federal Law № 208. 2010. *On the Consolidated Financial Statements*. Available at: <http://www.rg.ru/2010/07/30/finotchet-dok.html>.

requirements for knowledge and skills, necessary for the preparation of such financial statements under IFRS and their verification on the part of an independent auditor.

In the Russian Federation, according to the Federal Law "On Auditing" of January 1, 2011 the qualifying exam for the qualification certificate of the auditor is conducted by the Unified Certification Commission (UCC), which was created by SROs of auditors.

It is composed of representatives of the SROs, the Ministry of Finance of the Russian Federation and representatives of the scientific and educational community.

For the purpose of the qualification examination the Unified Certification Commission must:

- (a) Provide a list of questions and candidates;
- (b) Register applicants;
- (c) Provide the equipped classrooms for the qualification examination, as well as all the necessary technological tools;
- (d) Carry out the admission of applicants for the qualification examination;
- (e) Monitor the maintenance of the qualification examination's procedure;
- (f) Provide the results of the qualification examination;
- (g) Ensure the security of information, documents and materials related to the conducting and passing of the qualification examination.

The contents of the qualification examination includes 5 different areas:

- (a) Legal regulation of enterprise operations and human resources;
- (b) Accounting and reporting;
- (c) Taxation of businesses and individuals;
- (d) Finance management and analysis;
- (e) Audit.

Table VI.1
Number of members in SROs as of December 2013

SRO	Audit Chamber of the Russian Federation ²³⁵	Moscow Audit Chamber ²³⁶	Institute of Professional Auditors ²³⁷	Russian Association of Auditors ²³⁸	Auditing Association "Commonwealth" ²³⁹
Number of members – audit organizations	995	1 235	315	879	1 354
Number of members – auditors	6 297	5 777	2 524	3 625	4 756
Total	7 292	7 012	2 839	4 504	6 110

The full list of questions general topics of the qualification examination and examination procedures are prescribed in detail and presented on the website of the Unified Certification Commission.²⁴⁰

To participate in the qualification examination a candidate fills out the registration form electronically at the official website of the unified certification commission in the Internet network. The qualification examination consists of computer-aided testing and of a written part of the test. Computer-aided testing is carried out in rooms with computers, allowing creating and delivering an individual set of real time tests to each applicant.

The qualification examination procedure imposes rather strict requirements on a candidate. The qualification examination is held twice a year simultaneously in all the venues. The Unified Certification Commission uses a common approach to determine the results of execution of candidates' written work.

The Ministry of Finance of the Russian Federation approved the procedure for issuing the auditor qualification certificate and its form.

An auditor's qualification certificate is issued provided that a candidate has at least three years of work experience related to the implementation of auditing or accounting and financial reporting. Moreover, at least two of the last three years of this work experience should be related to the work in an audit firm.

²³⁵ <http://sroapr.ru/apr/chlenstvo/reestr.php>

²³⁶ <http://m-audit-chamber.ru/members/registry/>

²³⁷ <http://www.e-ipar.ru/members>

²³⁸ <http://www.rkanp.ru/node/1056>

²³⁹ http://www.auditor-sro.org/membership/members_list/reestr_members/

²⁴⁰ Ministry of Finance of the Russian Federation. 2010. Order №51n On approval of the creation of a unified certification commission. Available at: http://www.eak-rus.ru/files/create_eak.pdf.

The auditor's qualification certificate is issued by an SRO of auditors based on the application of a candidate. This organization keeps a record of new certificates, as well as of reissued certificates and of duplicates.

The statistics on passing the auditor's qualification examination for the past two years is presented in table VI.2.

Table VI.2

Pass rates on the auditors' qualification examination in 2012–2013

	Total	Passed	
	Number	Number	% of total
2013			
3Q 2013	98	17	17.35
2Q 2013	180	103	57.22
1Q 2013	63	21	33.33
2012			
4Q 2012	3 503	953	27.21
3Q 2012	2 824	573	20.29
2Q 2012	1 050	275	26.19
1Q 2012	942	269	28.56

Source: Unified Certification Commission. 2013. General analysis of the results of qualifying examinations. Available at: http://www.eak-rus.ru/rezultaty_ekzamenov/obobwennyj_analiz_rezul_tatov_kvalifikacionnyh_e_kzamenov.

As it can be seen from the table VI.2, the total numbers for years 2013 and 2012 differ a lot. In 2012 the "simplified" version of the certification exam was provided. Being mandatory, it was required for auditors to continue provision of their services to public companies. However, too many candidates failed even the simplified version of it and even with several attempts made, which had a negative impact on the audit profession in the Russian Federation. The simplified exam was cancelled in 2013. As compared to the previous number of candidates, very few tried the general exam in 2013. They do not risk going to the exam because its results are truly unpredictable: there were exam sessions where 95 per cent of candidates failed. And it is almost impossible to appeal against final results.²⁴¹

Accounting profession: requirements, entry process

The specialists applying for an accountant qualification certificate must meet the following requirements:

²⁴¹ GAAP-IFRS.COM. 2013. Russia's Unified Certification Commission seeking cooperation with education centers for accountants. Available at: <http://gaap-ifs.com/news/137419/>.

- (a) To have a higher or secondary vocational economic education;
- (b) To complete a special post-graduate academic training session aimed at providing the necessary level of up-to-date professional knowledge and skills according to the programme for training and certification of professional accountants;
- (c) To have at least three years of work experience in the field of specialty or in management positions, in case of secondary economic education – not less than five years of experience;
- (d) To obtain recommendation letters from at least two professional (certified) Accountants;
- (e) Not to have been previously convicted for economic crimes.

In the Russian Federation the accountant profession has the entry chain:

Secondary Vocational Education – University – Qualification examination – Continuous professional development.

In contrast to the auditing profession, entry into the accounting profession in the Russian Federation may be done with secondary vocational education. A programme of vocational education is based on the requirements of the relevant federal State educational standards for secondary and vocational education taking into account the profession or occupation of secondary vocational education²⁴². However, in the Russian Federation this path is not very popular. Before the transition to a market economy, the system of vocational technical education was well developed. Many students who have decided to have a profession of accountant went to special technical colleges and schools. However, the reorganization of the education system pushed vocational technical education aside, giving the priority to the universities. As a result, now in the Russian Federation there is a shortage of low-level staff as bookkeepers which is explained by the desire of young people to finish university and to get a bachelor's degree.

Mainly those who wish to become an accountant choose to go straight to the university and then to continue training to become a Certified Public Accountant.

Certification of Professional Accountants of the Russian Federation began in 1997 by the initiative of the Ministry of Finance. The certification programme for professional accountants was developed in accordance with the recommendations of the International Federation of Accountants and the International Programme for the training of professional accountants which was worked out by the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR) and adopted at its 16th session in Geneva on 17–19 February 1999.

The SROs are engaged in the issue of certificates of professional accountants and auditors in the Russian Federation. But this procedure is not standardized among the existing SROs, and the qualification examination procedure is determined by each SRO. Further education and training programmes developed by each organization are also not

²⁴² Ministry of Finance of the Russian Federation. 2010. Order №161 On approval of the issuance of the auditor qualification certificate and form of the auditor qualification certificate. Available at: <http://www.rg.ru/2011/01/28/audit-dok.html>.

standardized. As an example, the training programmes of non-commercial partnership "International Association of Certified Public Accountants" are available on its website.²⁴³

C. Regulatory framework

Accounting profession framework

Starting from the late 90s and before the introduction of IFRS in the legal framework of the Russian Federation in 2010, they were used by large companies on a voluntary basis.

The process of applying IFRS in the Russian Federation began with the introduction of mandatory provisions for recognition and clarification IFRS for use on the territory of Russian Federation. According to this document, in the Russian Federation, the following organizations should present and publish consolidated financial statements in accordance with IFRS:

- (a) Credit institutions;
- (b) Insurance companies;
- (c) Other organizations whose securities are admitted to trading on organized trading.

Gradually IFRS started to be applied not only by large companies but also small and medium-sized companies as a necessary condition for obtaining a loan or other sources of financing. However in the legal framework of the Russian Federation the application of IFRS for small and medium-sized enterprises in the Russian Federation is not mandatory yet, but it is expected that coming changes in the national legislation and the introduction of mandatory IFRS for consolidated statements will cover almost all types of companies, including small and medium enterprises.

The main legislative document on the accounting issues is the Federal law "On Accounting". It covers all the aspects of the profession, including human capacity development. In 2013 a new Federal law "On Accounting"²⁴⁴ came into effect, the purpose of which is to establish the unified requirements and the legal framework for accounting and reporting. This law, as well as the Federal Law № 208-FZ "On the Consolidated Financial Statements" introduced the IFRS into the legal framework of the Russian Federation.²⁴⁵

The new law defines the requirements for an individual responsible for the accounting of open joint-stock companies, insurance companies, private equity and investment pension funds, management companies and unit investment funds. These requirements are applicable to chief accountants of companies in which securities are

²⁴³ International Association of Certified Public Accountants. 2013. Training Programs. Available at: http://masbuh.ru/index.php?option=com_content&view=article&id=15&Itemid=129.

²⁴⁴ The Federal Law № 402. 2011. *On Accounting*. Available at: <http://www.rg.ru/2011/12/09/buhuchet-dok.html>.

²⁴⁵ The Federal Law № 208. 2010. *On the Consolidated Financial Statements*. Available at: <http://www.rg.ru/2010/07/30/finotchet-dok.html>.

listed on stock market. The federal law also establishes requirements for chief accountants of the management bodies of State extra budgetary funds.

In 2013 an Accounting Standards Board was created under the Ministry of Finance. The Board will consider all the legal documents that will expand the Federal law "Accounting". It will start its work in January 2014, and therefore an active development of the accounting regulatory framework is expected in 2014.

Monitoring the auditing profession

The State monitors the auditing profession and the activities of the SROs through the Ministry of Finance the Russian Federation and the Audit Council under the Ministry of Finance. These bodies also monitor the effectiveness of training. They report to the authorized Federal Agency and the Audit Council for auditing of the Ministry of Finance.

The Council of Auditing was established in 2009 by the order of the Ministry of Finance of the Russian Federation to order to ensure the public interest in the implementation of the audit activity ²⁴⁶.

The main functions of the Audit Council are:

- (a) Consideration of public policy issues in the auditing field;
- (b) Issuance of recommendations for approval of the federal auditing standards and other normative legal acts, controlling the auditing activities;
- (c) Approval of the mandatory application of the code of professional ethics for auditors and rules of independence for auditors and auditing organizations;
- (d) Evaluation of the SROs of auditors and preparation of proposals for external quality control of work of auditing organizations.

Recently the Government submitted to the State Duma a law providing for the transition to the implementation of audit activities in accordance with International Standards on Auditing (ISA), which are applied by International Federation of Accountants. This law also establishes a procedure for the recognition ISAs for use in the Russian Federation, including introduction of a mechanism of international auditing standards into the legal framework of our country.

Continuing professional development of an auditor

Continuing professional development of an auditor is connected with the monitoring of all the changes in legal and business practices and with the understanding clients' businesses and audit methods. Apart from deep theoretical knowledge, the auditing profession requires an ethical behaviour and practical experience that should be a part of a system of continuous professional development.

In the Russian Federation in 2006 the memorandum "Improving the skills of auditors" was developed in the framework of the project "Implementation of the Reform of

²⁴⁶ Ministry of Finance of the Russian Federation. 2009. Order №146n On approval of the creation of Audit Council and its working body. Available at: http://www.consultant.ru/document/cons_doc_LAW_153413/.

audit in Russia", financed by the European Union²⁴⁷. In accordance with professional requirements and international practices auditors need to constantly improve their qualifications. Changes in legislation, regulations, business practices, as well as changes in expectations of users of financial statements require the continuous professional development of auditors. In this case, the changes taking place in the Russian Federation are considered to be rapid and significant as the market economy in the Russian Federation is gaining momentum.

Auditors in the Russian Federation are required to attend the training programmes of professional development, approved by the Self-regulating Organization of auditors, to which he/she belongs to, during each calendar year starting from the one year after obtaining the auditor qualification certificate. The minimum duration of the training is set by the Self-regulatory Organization of auditors for its members and cannot be less than 120 hours over three consecutive calendar years but not less than 20 hours in each year. In the Russian Federation, as a rule, a quantitative criterion of 40 hours of advanced training courses per year has been implemented. The attendance of these courses by the auditors is selectively controlled. However the statistics²⁴⁸ show that auditors do not consider training courses less than 40 hours effective for their professional development (see annex VI.2). Each auditor annually develops an individual training plan in written form. The form of a plan is determined by the Self-regulating Organization of auditors. The plan is approved before the start of the year for auditors working in the audit institutions, by the head of the auditing firm or the person in charge of the organization of training for the auditing firm. The auditor is obliged to prepare a report on the professional development courses undertaken on the basis of the plan developed. The following forms of study are identified:

- (a) Training in the form of training courses in educational institutions;
- (b) Intra-firm training, set by the organization;
- (c) Training in the authorized auditing organizations;
- (d) Participation in conferences, etc.

The list of educational institutions conducting the training is determined by the SRO of auditors. The auditor has the right to take courses of professional development for auditors in any educational institution, selected by the SRO of auditors, to which he belongs.

The SRO of auditors monitors the work of selected educational institutions and reviews any complaints on their activities. The forms of control are presented by external quality control of the work of auditors and auditing firms, as well as compliance with the mandatory requirements of continuing professional development provided by the Federal Law "On Auditing". The mandatory requirements are defined by the Russian Federal Audit Standard 4-2010 "The principles of external quality control".

²⁴⁷ Ministry of Finance of the Russian Federation. 2006. Memorandum on Improving the training of auditors in the Russian Federation. Available at: <http://www.minfin.ru/common/img/uploaded/library/2006/11/memorandum.pdf>.

²⁴⁸ Ministry of Finance of the Russian Federation. 2006. Programs, concepts, plans, certificates of audit activity on the territory of the Russian Federation. Available at: <http://www1.minfin.ru/ru/accounting/audit/basics/programs/>.

The SRO of auditors defines a system of disciplinary actions against auditors who violate the requirement of retraining up to the cancellation of the auditor qualification certificate and the termination of his membership in the SRO of auditors. If the reason for non-compliance with the requirement of training on the courses of professional development is justifiable, the SRO of auditors sets an individual term to an auditor to follow the training.

Cancellation of the auditor qualification certificate: grounds and procedures

Qualification certificate is cancelled in the following cases:²⁴⁹

(a) Obtaining an auditor qualification certificate with the use of forged documents or obtaining an auditor qualification certificate by a person who does not meet the requirements for the candidate;

(b) Entry into force of the sentence, providing a penalty in the form of withdrawal of the right to engage in audit activity over a certain period of time;

(c) The systematic violation of requirements of the Federal Law on Auditing or the federal auditing standards by an auditor iv) signing an audit report for financial statements that are deliberately false;

(d) Auditor's non-participation in the implementation of audit activities (non-implementation of audit activities by an individual auditor) for two consecutive calendar years;

(e) Non-compliance with requirements of following a programme of professional development. The exception is the case when the SRO of auditors with the approval of the Audit Council recognizes a valid reason for non-compliance with this requirement (e.g., severe illness);

(f) Avoidance of the external auditor's quality control.

The main reason of cancellation of certificates in the Russian Federation is non-compliance with requirements of following a programme of professional development.

The decision to cancel the auditor's qualification certificate is made by an SRO of auditors, to which an auditor belongs and it may be appealed in court within three months from the date of the decision.

A person with a revoked qualification certificate has no rights to re-file an application for admission to its qualifying exam within three years from the date of the decision to cancel the auditor's qualification certificate or within the period provided by a valid court sentence.

²⁴⁹ The Federal Law № 307. 2008. *On Auditing*. Article 12. Available at: <http://www.rg.ru/2008/12/31/audit-dok.html>.

Public sector

In the public sector of the Russian Federation, the Government has created and developed projects on the accounting standards based on International Public Sector Accounting Standards (IPSAS).

One of these projects is "Modernization of the treasury system of the Russian Federation", which was commissioned by the Ministry of Finance of the Russian Federation within the framework of the joint project of the Russian Federation and the International Bank for Reconstruction and Development. In 2010 it was officially translated to Russian language and published by IPSAS. During this process, public debates with the professional community were organized for the translation details. These discussions were attended by representatives of federal bodies of State power and bodies of State power of subjects of the Russian Federation. The results of the forum are published on the website of the Russian Federation Ministry of Finance²⁵⁰.

In the public sector of Russian Federation there is no available statistical information about the adequacy of the level of professional accountants and their training. However, the integration process of IPSAS is going on; for example, Kazan Federal University has introduced mandatory international audit on the basis IPSAS in 2014.

D. Institutional framework

Institutions involved in the process of education and certification

The organizations involved in the training, certification and continuing professional development of accountants and auditors in the Russian Federation include:

- (a) The Ministry of Education and Science;
- (b) The Federal Service for Supervision in Education and Science;
- (c) Self-regulatory organizations (SROs);
- (d) Unified Certification Commission (UCC);
- (e) Audit Council of the Ministry of Finance;
- (f) The Accounting Standards Board of the Ministry of Finance;
- (g) Universities;

(h) Educational and Methodological Associations (EMA) of the Russian Universities.

The Ministry of Education and Science of the Russian Federation oversees scientific institutions, education and school accreditation in the Russian Federation, including the Institute of Higher Education of the Russian Federation, the State educational, Center of the testing, National Information Centre on Academic Recognition and Mobility.²⁵¹

²⁵⁰ Ministry of Finance of the Russian Federation. 2010. International Public Sector Accounting Standards. Available at: <http://www1.minfin.ru/ru/budget/sfo/msfo/>

²⁵¹ The Ministry of Education and Science of the Russian Federation. 2013. Mission. Available at:

Government authorities represented by the Ministry of Education and Science are responsible for the legal and regulatory requirements in respect of accounting and auditing education.

The Federal Service for the Supervision of Education and Science (Rosobrnadzor) is a federal executive authority performing functions on control and supervision in the sphere of education and science. It is the child agency of the Ministry of Education and Science of the Russian Federation and is subordinated to it.²⁵²

Self-regulating organizations of auditors (SROs) are non-profit organizations created on the membership conditions in order to develop favourable environment for the implementation of audit activity.

In order to operate as a SRO, an organization should set up specialized bodies responsible for monitoring of the compliance of its auditors with the law "On Auditing ", auditing standards, independence rules for auditors and audit organizations, the code of professional ethics of auditors and also responsible for the consideration of cases on the application of disciplinary actions on its members.

Along with the activities mentioned in the Federal Law "On the SROs", organizations develop and approve operating standards for SROs, adopt the code of professional ethics of auditors , develop draft federal audit standards, draft standards in the field of accounting and financial reports, organize the training of auditors.²⁵³

The Unified Certification Commission (UCC) is an autonomous non-profit organization created in 2010 by six SROs of auditors. Its main activity is the administration of examinations on verification of the qualifications of candidates on auditor qualification certificate in the Russian Federation.²⁵⁴

The Audit Council exists under the Ministry of Finance to ensure the public interest in the implementation of audit activities. The Council aims to account for the views of professional participants of audit activities in the formation and implementation of State policy in the field of auditing, development of State support measures for the establishment and development of the audit market in the Russian Federation.²⁵⁵

The Accounting Standards Board is an organization under the Ministry of Finance. Its main mission is to examine federal accounting standards on the subject of:

- (a) Compliance with the legislation of the Russian Federation on Accounting;
- (b) Meet the needs of users of accounting (financial) statements, as well as the level of development of science and practice of accounting;
- (c) Ensuring unity of the accounting requirements;

<http://eng.mon.gov.ru/str/mon/mis/>.

²⁵² The Ministry of Education and Science of the Russian Federation. 2013. Federal Education and Science Supervision Service. Available at: <http://eng.mon.gov.ru/str/ais/ron/>.

²⁵³ Academic Encyclopedia. 2013. Self-regulating Organization of Auditors. Available at: <http://dic.academic.ru/dic.nsf/ruwiki/1862203>.

²⁵⁴ Unified Certification Commission . 2013. General Information. Available at: http://eak-rus.ru/about/obwaya_informaciya.

²⁵⁵ Irlitsa L.V. 2013. Organization of audit activities in the Russian Federation: Audit Council. Available at: http://www.e-college.ru/xbooks/xbook193/book/index/index.html?go=part-006*page.htm.

(d) Providing conditions for the uniform application of federal standards.

Universities, employers and other interested parties who are responsible for compliance with the rules and regulations are involved in the development, distribution or evaluation of education programmes for accountants and auditors.

Educational and Methodological Association (EMA) of the Russian Universities are organizations created in accordance with the Federal Law "On Education in the Russian Federation". Their main activities are the participation of educational, academic staff and representatives of the employers in the development of the federal State educational standards, as well as the harmonization of educational programmes, coordination of activities of organizations, and execution of educational activities to ensure the quality and development of educational content. The Educational and Methodological Associations are created by the federal executive authorities and executive bodies of institutions engaged in the State administration in education field.²⁵⁶

The Educational and Methodical Association (EMA) under the University of Finance of the Russian Federation operates in the field of finance, accounting and the world economy since 1987. In total there are 400 universities in the Russian Federation and the CIS countries, preparing the economists. The fields study includes "Accounting and Audit", "World Economy", "Taxes and Taxation", "Finance and Credit", "Analysis and Risk Management". At present, the section of secondary vocational education of financial – economic profile, which consists of more than 70 educational institutions implementing programmes of vocational education, is created within the framework of EMA.

In its activity the EMA is working closely with the Ministry of Education and Science, the Ministry of Finance, the Ministry of Economic Development, the State Duma Committee, the Association of Accountants and Auditors of the Russian Federation and the CIS countries, with the organizations involved in related activities, educational and methodological unions of universities.²⁵⁷

EMA is the centre of the development of State educational standards. For the development of accounting standards the working groups of leading Russian professors have been set up, functioning as a part of the educational and methodical council on accounting, analysis and audit. The State educational standards are based on a systematic approach; they provide interconnection, consistency and continuity to the educational process as a whole. In education standards both national–regional and university components are present, which allows universities to take into account the specifics of regions and their sectorial structure. Currently, the education standards in the Russian Federation continue to change which goes in line with the process of formation of the European Higher Education Area. The Federal State Educational Standards of higher education in "Accounting, analysis and audit" are designed and used by the Universities of

²⁵⁶ The Federal Law № -273. 2013. *On Education in the Russian Federation*. Article 19, paragraph 2, 3. Available at: <http://www.zakonrf.info/zakon-ob-obrazovanii-v-rf/10/>

²⁵⁷ University of Finance of the Russian Federation. 2002. Document on the Educational and Methodical Association of the Russian Universities. Available at: <http://www.fa.ru/dep/umo/about/Documents/1.1%20%D0%9F%D0%BE%D0%BB%D0%BE%D0%B6%D0%B5%D0%BD%D0%B8%D0%B5%20%D0%BE%D0%B1%20%D0%A3%D0%9C%D0%9E%202002.pdf>.

the Russian Federation for the "bachelor" and "master" level degrees in accordance with the International Educational Standards.

The experience of the coordination of the University, EMA and the Ministry of Finance is quite interesting. The Minister of Finance is the scientific adviser of the financial department of the University, the Director of the Department of financial control, auditing, accounting and reporting of the Ministry of Finance is the scientific adviser of the department of accounting and auditing, and the head of the master's programme. This coordination of regulators allows sharing information and interacting on a national level.

E. Integration of international requirements in the national system

Overview

In the Russian Federation, different measures are taken to respond to international norms and regulations. These measures include incorporation of international standards into the national framework.

The application of IES in Russian education system allows to eliminate the differences in qualification and work requirements of professional accountants and auditors, and to contribute to their global mobility. IES are constantly changing and can be referred as both: the initial professional development and the continuous professional development. In the Russian Federation accounting education at the university level refers to the initial professional development. For example, on the course "Accounting", taught on the undergraduate level, students study the IES and the way professional community uses them. Students at the initial stage of entry into the profession should know the international and national organizations involved in this process; this knowledge will help them later in the continuous professional development.

The SRO "Russian Association of Auditors" is an active member of IFAC. The associate members are – "Audit Chamber of Russia", "Institute of Professional Auditors of Russia". However, it should be noted that Russian SROs weakly interact with international organizations and do not usually participate in the discussions of projects and open forums related to auditing. The membership in these organizations is mainly used for the "status" purposes.

Difficulties in integration with international requirements

There are several difficulties in solving problems related to the globalization of corporate reporting and mobility in the implementation of international standards of education:

(a) Difficulties in incorporation of the international standards of education in the national system of accounting education. They are associated primarily with the use of accountants and auditors' professional judgment, which is historically unusual for the

accounting profession in the Russian Federation. A study conducted by KPMG comparing IFRS with Russian GAAP provides useful insights on this topic.²⁵⁸

(b) Information barrier. It is explained by the fact that the development of corporate reporting is impossible without the use of modern computer technology. In addition to the knowledge in the fields of accounting and auditing, a professional accountant and auditor should be familiar and practically use the language of XBRL for the formation of corporate reporting and presentation of accounting information.

(c) Language barrier. This refers to the absence of a sufficient number of professional accountants and auditors who speak English at business level, who can read the international standards in the original version and participate in a variety of professional discussions and forums. This raises challenges for effective implementation of the IES and preparation of high-quality corporate reporting.

(d) Lack of incentives for keeping the professional accountants and auditors in the country. Specialists with high-quality accounting education are in demand in CIS and other countries. The most demanded are IFRS specialists with knowledge of the Computer technologies and Software (for example ERP system).

(e) The Russian accounting education system has a certain isolation and lack of engagement in the global education network.

Actions for overcoming difficulties in integration with international requirements

Suggestions aimed at overcoming the discussed above difficulties are following:

(a) To implement the International Bachelor and Master programmes in universities, to introduce an international curriculum vitae on most of the programmes;

(b) To develop new educational types in the initial vocational education and in the following continuous professional development. Harvard University and other universities worldwide actively use Internet, making all the educational resources available to public. Additional stages of vocational education, where the competence approach to accountants and auditors is used, are actively developing;

(c) To enrich the resource supply of professional accounting and auditing education. It consists of the following elements:

(i) Staff: Now teachers of universities sign work contracts. The salary of university teachers must correspond to the salary of their colleagues in advanced countries and should increase significantly compared to the current average salary in a country;

(ii) Material resources: It is necessary to improve the material infrastructure of education system. During the past decade the main focus of improvement of the accounting and auditing education was on the elimination of inconsistency between the education structure and prospects of the economy. The focus of the

²⁵⁸ ZAO KPMG, 2005. *IFRS compared to Russian GAAP: An overview*. Available at: <http://www.kpmg.com/CN/en/IssuesAndInsights/ArticlesPublications/documents/IFRS-compared-to-Russian-GAAP-O-200510.pdf>.

current decade is on the creation of a new system of professional qualifications in the field of accounting and auditing;

(iii) Adaptation of the global standards of knowledge and transparency of accounting and auditing education and awareness creation to all levels of participants and agents in the market;

(iv) Creation of favourable conditions for the development of new projects in education (both higher and secondary), including their economic viability. It is necessary to develop social funds, which would support the initiatives in the educational system.

Ethical code and rules of the independence of auditors and audit firms

In accordance with the Federal Law "On Auditing" the Ethical code for auditors applies in the Russian Federation, which is a set of rules of conduct mandatory to audit firms and auditors performing the audit activities. The Code is based on the same code adopted by IFAC and recognized in international practice.

Ethical code and Rules of the independence of auditors and audit firms were approved by the Audit Council of the Ministry of Finance of the Russian Federation and adopted by the SROs as mandatory for its members since January 1, 2013. They were introduced for the first time in the Russian practice of auditing regulation. This document contains:

(a) The most important requirements for ensuring the independence of audit firms and auditors;

(b) The methods and mechanisms for the implementation of these requirements;

(c) The procedure for resolution of the conflict of interest arising in the audit practice.

The rules were developed based on the best international practices.

Country participation at regional and international levels

The Russian Federation is a member of the Coordinating Council for Accounting of the Commonwealth of Independent States. The Council was established by the Executive Committee of the Commonwealth of Independent States, and is a coordinating and advisory body. It carries out its activities in cooperation with other bodies of sectorial cooperation and national agencies involved in the development and regulation of accounting. The Board is guided by the Regulations for the CIS Economic Council, the Regulation on the CIS Executive Committee and the Regulation of the Coordinating Council of accounting at executive committee of the Commonwealth of Independent States.²⁵⁹

The main task of the Council is the assistance in:

²⁵⁹ Economic Council of the Commonwealth of Independent States. 2000. The Coordinating Council for Accounting of the Commonwealth of Independent States. Available at: <http://www.minfin.gov.by/upload/acc/met/polojenie.pdf>.

- (a) Development of the initial requirements to the Regulation of the organization, accounting and auditing in the framework of the Commonwealth of Independent States;
- (b) Approximation and harmonization of national systems of accounting and auditing provisions of IFRS and ISA;
- (c) Harmonization of the methodological work of the authorized bodies of the Commonwealth in the field of accounting and auditing;
- (d) Improvement of accounting and auditing standards, elaboration of common basic requirements for the organization and management of accounting and auditing, preparation of financial statements;
- (e) Development of unified standards for the level of professional qualification of the accountancy profession and common approaches to the Ethical code for Professional Accountants adopted by each State member of the CIS;
- (f) Participation in the development of projects of inter-state acts in the field of accounting and auditing;
- (g) Development of conceptual approaches for the regulation of accounting and auditing of the Commonwealth;
- (i) Exchange of information in the field of accounting and auditing standards on the territories of the Commonwealth.

The Council consists of authorized representatives of the States members of the Commonwealth, regulating accounting issues. Meetings of the Council are held as necessary, but at least once a year.

The Coordinating Council for Accounting under the Executive Committee of the Commonwealth of Independent States is engaged in the exchange of experience in the development of national systems of accounting and auditing, including experience in the application of international accounting standards and international auditing standards by national economic entities.

In order to improve the quality of financial information on activities of the national economic entities of the States members of the Commonwealth of Independent States, ensure its comparability, enhance the investment climate in the States members of the Commonwealth of Independent States, a draft agreement on the consolidated financial statements of the national business entities of the Commonwealth of Independent States was approved. It was decided to exchange information on the improvement of national systems of accounting and auditing, implementation of International Financial Reporting Standards and International Standards on Auditing in the member States of the Commonwealth of Independent States. The representative of the Ministry of Finance of the Russian Federation was elected as the Chairman of the Coordination Council for Accounting in the Executive Committee of the Commonwealth of Independent States.

The Russian Federation is a member of the working group on the Russian Federation–European Union accounting and auditing. In the working group the issues of accounting and auditing in the Russian Federation and the European Union are discussed. A particular attention is paid to the national systems of public oversight over the audit profession, and it is managed independently of the profession. The representatives of the

European Commission have assessed the equivalence of regulation of the audit activities in the third countries, including the Russian Federation²⁶⁰

The Russian Federation represented by the Ministry of Finance is a member of the emerging economies group of the IASB.²⁶¹ Group meetings became a forum of consideration of the important issues of financial statements in terms of developing economies. In the future, the Group will mainly focus on the research projects in terms of the needs of developing economies, as well as on the development of proposals to address implementation of IFRS in emerging economies.

F. Other participants in the supply chain

In the Russian Federation, the TACIS project "Implementation of the reform of accounting and reporting in the Russian Federation" was run in 2005–2007 with the financial support of the European Union²⁶². The project partner was the Ministry of Finance of the Russian Federation and was carried out by a consortium of participants. The project consisted of CJSC "PwC", LLC "Financial and Accounting Consultants (FAC)", the Association of Chartered Certified Accountants (ACCA) and Agriconsulting SpA (Italy).

The main activities of the project included training of professionals and development of training materials for IFRS. About 2,000 practitioners and teachers in the field of accounting participated in various training events organized in all regions of the Russian Federation. In-depth courses were conducted for teachers of universities and other educational institutions upon which they received not only the necessary knowledge and skills to work with IFRS, but also materials for the teaching of IFRS. As a result, about 900 teachers were trained to teach IFRS. Previously issued books were updated and new textbooks on IFRS were prepared, and can be further used for self-study. 5,000 CDs with educational materials were distributed among practicing accountants and teachers.

Along with the training of accounting professionals, great attention was paid to the training of users of financial statements on IFRS. Various methods of teaching IFRS for the business community (including executives, managers) were developed and tested. The methodology has been tested in 10 pilot companies. CDs with instructional materials for conducting IFRS training among management personnel were distributed to 500 teachers of Russian universities.

Two studies on the sociology²⁶³ of accounting reform and the use of IFRS were conducted from 2003 to 2007. The research results were disseminated to organizations, professional associations in the field of accounting and auditing, public authorities, etc.

²⁶⁰ The European Commission, 2013. Commission Implementing Decision. Official Journal of the European Union, 163/26. Available at: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2013:163:0026:0029:EN:PDF>.

²⁶¹ IFRS. 2013. Emerging Economies Group Members. Available at: <http://www.ifrs.org/The-organisation/Advisory-bodies/EEG/Pages/Members.aspx>.

²⁶² Ministry of Finance of the Russian Federation. 2007. TACIS Project Summary: Implementation of the reform of accounting and reporting in the Russian Federation. Available at: http://www.minfin.ru/common/img/uploaded/library/2007/07/kop_170707.doc.

²⁶³ Ministry of Finance of the Russian Federation. 2012. Monitoring the progress of the accounting reform. Available at: <http://www1.minfin.ru/ru/accounting/accounting/basics/monitoring/>.

Most of the materials of the project, such as training materials, public opinion polls, a comparative analysis of the requirements of IFRS and Russian accounting rules, and others, are available on the website of Ministry of Finance of the Russian Federation for use by a wide range of stakeholders.

Some statistics should be provided in support of IFRS training procedures as a key element of corporate reporting. In the Russian Federation since 2003 to 2006 more than 8,000 professionals and 1,200 teachers were trained. In 2004–2006, 41 textbooks on IFRS and 20 case studies were prepared and distributed for free. More than 10,000 participants have been awarded an international diploma in IFRS. The system of training on IFRS, including mandatory training of auditors on IFRS was organized. On the TACIS programme, 1,517 people have been trained on IFRS in 18 months.

In the Russian Federation, the regulators are required to undergo training every five years. Representatives of the Central Bank of Russia, the Ministry of Finance of the Russian Federation and the Republic of Tatarstan, the Ministry of Economic Development of the Russian Federation, the Federal Tax Service of the Russian Federation, the Federal Service for Financial Markets of the Russian Federation, the Federal State Statistics Service, the Federal Service for Financial and Budget Supervision, the Federal Service for Insurance Supervision were trained in IFRSs. From 2005 to 2008 a total of 142 State employees were trained.

It should be stated that in recent years the training of regulators was done mainly on IFRS. Actually IFRS are the base of corporate reporting. However, the organization of further education and training is required in order to further enable regulators to understand the importance of high-quality corporate reporting.

Corporate social responsibility aspects are not mandatory for the disclosures in the Russian Federation. However voluntary disclosure is permitted for public companies is the disclosure of social and environmental aspects of non-financial indicators.

G. Capacity-building needs

Challenges in relation to the globalization of corporate reporting, mobility, necessity to implement international standards, and the like

Current conditions are characterized by the fact that the system of accounting education including continuing professional accounting education is experiencing radical changes. Under these conditions, the main outstanding issues are as follows:

(a) Need to improve the coordination of all key institutions involved in accounting education (e.g., the Ministry of Education and Science and the educational and methodical associations of universities, professional accounting bodies and universities, SROs) in order to be able to meet modern challenges;

(b) Low existing qualification requirements for junior accounting staff according to the assessment of corporate reporting infrastructure. Hence it is necessary to develop and introduce qualification requirements for junior accounting staff, including continuing

education requirements.²⁶⁴ For this purpose the Associated Degree for accountants should be introduced as a part of the bachelor's degree. These two levels of education in the framework of bachelor's degree should be fixed legally and carried out jointly with Foreign Universities;

(c) Lack of up-to-date programmes, both at the university level and in the context of the professional organizations, meeting the latest international trends and challenges. Their approval by all SROs and the Ministry of Finance of the Russian Federation should be required;

(d) Further institution-building in the field of accounting education;

(e) Necessity to "train the trainers" to make, use, control and audit corporate accountability;

(f) Introduction of a unified professional accountant qualification examination that meets the requirements of IFAC.

The main areas that need further development in order to build the capacity of high-quality corporate reporting are the following:

(a) It is necessary to develop online resources for the educational programmes in the field of accounting and auditing. These online resources will provide students the opportunity to develop a personal educational programme using the data from several organizations engaged in educational activities, including foreign organizations. During the implementation of educational programmes it is necessary to cooperate actively with research organizations and enterprises. For these purposes, a cooperation agreement between several organizations should be signed (for example, a contract between a University and enterprises), and they should jointly develop and maintain educational programmes.

(b) Further development of the system of training of auditors and accountants is required. It is necessary to develop the accreditation system of training courses for professional development, where the auditors and accountants should receive certificates of completion of the course. The advantage of accreditation of training centres is that it helps an auditor or an auditing firm to select the learning tools. The SRO of auditors may develop and approve additional training programmes on topics recommended by the Council for auditing. The SRO of auditors should provide updated training programmes for auditors on a regular basis.

(c) As a part of the continuity of accounting education programmes, the coordination of university accounting education and training programmes and the ability to obtain certification in a university with a hands-on experience are necessary. In addition, accreditation of university programmes with international certified programmes such as ACCA and CIMA should be encouraged.

(d) Corporate reporting training should be focused on Master's Degree, by incorporating special disciplines into the curriculum or by implementing individual master's programmes.

²⁶⁴ Ministry of Finance of the Russian Federation. 2012. Monitoring the progress of the accounting reform. Available at: <http://www1.minfin.ru/ru/accounting/accounting/basics/monitoring/>.

(e) In order to create incentives for phased investments in human capital, the project "Train the trainers on the supply chain of high-quality corporate reporting" is essential. It will enable trainers to discuss programmes, curricula, courses, teaching methods, general requirements for qualification works in order to subsequently share their knowledge with the students and the professional community of accountants. Leading universities in the Russian Federation, with the support of international organizations such as the IAESB, IFRS Education Initiative, IASB, IFAC, ACCA, CIMA, could become training centres.

(f) In connection with the adoption of the Ethics code and Rules of the Independence of auditors and audit firms approved by the Audit Board of the Ministry of Finance, it is necessary to develop training programmes "Professional ethics of auditors" and " Rules of the independence of auditors and audit firms "or their consolidated version.

The project structure and the contents of the programmes, as well as the proposed methodology of organization of the learning process are shown in annex VI.3.

H. Lessons learned

Lessons gained from the experiences of the country that would be useful for others

One can generally say that the radical changes in the profession of auditors and accountants which were taking place in the Russian Federation in the past decade mainly cover the compliance with international requirements of IFAC and can be useful in terms of:

(a) Legislative recognition of the basic requirements of the profession, a detailed study of the legal basis of the procedure to obtain an auditor qualification certificate, the requirements to an applicant, the procedure for determining the results of the qualification examination and issuance of the auditor certificate. Historically, the Russian Federation requirements for accountants and auditors were registered in the laws. Importance to the Russian Federation and other countries lies in the unity of principles and approaches to the profession. A legally binding obligation enables the applicant entering into a profession, to fully understand the process of becoming an accountant or auditor.

(b) Introducing the Professional Ethics and Rules of the Independence of auditors and auditing firms into the legal framework of the Russian Federation Code. The recommendations of SROs on the process of training of auditors and development of training programmes approved by the Audit Board of the Ministry of Finance open new possibilities.

(c) Coordination of the Ministry of Finance and the University on the example of the Financial University under the Government of the Russian Federation, where the research directors of departments are represented by the Minister of Finance, the Director of the Department of financial control, auditing, accounting and reporting, etc. This experience should be extended to other Universities.

(d) Experience of creation and operation of the educational and methodological unions of universities in the field of finance, accounting and the global economy. The possibility of their creation is defined by the Federal Law on the educational activities in

the Russian Federation and is aimed at identifying common approaches in the development of the federal State educational standards and continuing professional development.

(e) Accumulated experience of the Russian Federation in participation in the Coordination Council on Accounting under the executive committee of the Commonwealth of Independent States, in the working group of the European Union–Russian Federation on accounting and auditing standards, in the Group of emerging economies of the IASB, which is of particular interest for countries with emerging economies.

I. Conclusions and outlook

It should be stated that for the past nine years, the entry requirements for the audit profession changed completely, the unified evaluation committee was created, which has strict rules on the qualification examination, assessing the results of the examination and the procedure for issuing the auditor's certificate. Currently a unified qualification certificate is issued. The novelty of the system of audit and certification of auditors in the Russian Federation included the delegation of additional functions of the profession through the creation of SROs by the State.

A Plan for the development of accounting and reporting based on IFRS for the period until 2015 has been developed. To implement this plan, along with other measures, it is necessary to:

(a) Create incentives for the investments in human capital development;

(b) Establish a system of coordination of university programmes and programmes of the international certification of corporate reporting.

(c) Involve the representatives of the scientific sphere in the process of training and certification of specialists, sought-after business entities, improving their skills.

Certificates should be recognized by the Russian and international organizations.

In the formation process of a corporate reporting chain a fundamental reform of the entire system of economic information of the organization should be implemented. Management accounting should become a major part of the mechanism of drawing up the corporate reporting chain and introduction of the management decisions based on this reporting, should increase efficiency of activities, integrate accounting, analytical, planning and control functions of the internal information infrastructure. In this case, the role of an accountant in business management significantly increases.

The perception of the accounting profession should also change significantly. The accountant should be seen as a member of the management team, responsible for the formation of high-quality corporate reporting.

According to the Ministry of Finance, the assessment of staffing processes related to corporate reporting in the Russian Federation has received the a score of 79 per cent.²⁶⁵ The full compliance is reached in the following infrastructure elements:

- (a) Professional qualification and the general level of education of accountants and auditors;
- (b) Assessment of their professional abilities and qualities;
- (c) Requirements for their practical experience;
- (d) Continuous training.

The practice shows that to implement the potential of high-quality corporate reporting it is necessary to organize training of accountants–economists who study at university as well as chief accountants of public interest organizations in the following areas:

- (a) International Financial Reporting Standards (IFRS);
- (b) International Standards of Audit;
- (c) Integrated Reporting.²⁶⁶

The most important areas of work regarding human resources are the training of accounting personnel, the elaboration of training programmes for accountants and auditors and the improvement of training for the bodies regulating corporate reporting. It can be also advised to introduce the continuing professional development not only to chief accountants, but also to the younger accounting staff. Along with rigorous examination to obtain the auditor certificate it is necessary to develop unified certification procedures for professional accountants that meet international standards.

It is also necessary to develop a strategic plan for staffing, building high-quality corporate reporting and to organize the monitoring of its implementation.

²⁶⁵ Ministry of Finance of the Russian Federation. 2012. Monitoring the progress of the accounting reform. Available at: <http://www1.minfin.ru/ru/accounting/accounting/basics/monitoring/>.

²⁶⁶ The International Integrated Reporting Council . 2013. Consultation Draft of the International Integrated Reporting Framework. Available at: <http://www.theiirc.org/wp-content/uploads/Consultation-Draft/Consultation-Draft-of-the-InternationalIRFramework.pdf>.

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Annex VI.1. Financial performance self-regulating organizations of auditors of the Russian Federation

Source: <http://www1.minfin.ru/ru/accounting/audit/selfregulation>

Millions Rub	Year	Audit Chamber of the Russian Federation	Institute of Professional Auditors	Moscow Audit Chamber	Russian Collegium of Auditors	Auditing Association “Commonwealth”
Revenues for the year	2011	62.0	28.2	44.9	31.3	24.9
- total	2012	80.1	24.2	55.6	40.8	38.0
Including:						
-admission and membership fees of auditors and audit firms	2011	48.8	19.8	30.8	18.7	14.5
	2012	67.8	19.7	33.5	29.2	25
-contributions for the implementation of external quality control	2011	12.3	5.1	13.0	7.7	6.4
	2012	12.0	4.5	6.2	8.3	8.5
Expenses for the year	2011	73.8	25.3	38.4	32.3	24.7
total	2012	75.5	22.7	50.7	39.6	34.3
Including:						
-expenditure on the maintenance	2011	43.0	22.4	15.4	25.9	21.3
	2012	45.3	21.2	39.8	33.0	29.1
-costs of external quality control	2011	19.7	2.1	10.2	5.1	3.1
	2012	19.1	1.4	10.3	6.6	4.9

Annex VI.2. The distribution of the number of auditors trained, depending on the duration of training programmes

Source: <http://www1.minfin.ru/ru/accounting/audit/basics/programs/>

Duration of training programmes	The number of auditors trained in the programme training									
	Audit Chamber of the Russian Federation		Institute of Professional Auditors		Moscow Audit Chamber		Russian Collegium of Auditors		Auditing Association "Commonwealth".	
	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012
Total	7 503	6 893	2 942	2 725	5 955	5 967	5 802	7 332	7 303	9 609
Including :										
40 hours	5 695	5 279	1 502	2 460	2 853	2 861	2 417	2 818	1 548	2 532
20 hours	426	457	28	64	188	252	50	141	277	295
16 hours	73	70	212	1	416	60	185	261	422	62
10 hours	410	355	213	9	356	47	177	199	137	76
8 hours	56	40	987	191	2 142	2747	2 973	3 913	4 919	6 644
Other	843	692	-	-	-	-	-	-	-	-

Annex VI.3. Programme of improvement of the qualification of auditors

Programme of improvement of the qualification of auditors “Professional ethics and independence rules for auditors and audit firms”

Source:

http://www.minfin.ru/common/img/uploaded/library/2012/12/Protokol_7_ot_20_dekabr_ya.doc

The Purpose of the programme is to study basic principles of professional ethics and independence rules for auditors and audit organizations in the implementation of mandatory audit activity, and the formation of skills of implementation of such guidelines and rules in their operations.

Topic 1. General characteristics of the Code of Ethics and Rules of the independence of auditors and audit firms

The meaning and place in the regulatory auditing. The necessity of following the principles of professional ethics and independence rules by auditors and audit organizations in the implementation of audit activity.

Legal basis: Federal Law "On Auditing" "Code of Ethics for auditors", "Independence rules for auditors and audit organizations", "The Federal Auditing Standards".

The right of SROs of auditors to introduce additional requirements in their Code of Ethics and Rules of the independence of auditors and audit firms.

International Standards on Auditing and the Code of Ethics for Professional Accountants of the International Federation of Accountants. Application experience. Strategy for improvement.

Topic 2. The basic principles of professional ethics and conceptual approach to their compliance

The basic principles of ethics (honesty, objectivity, professional competence and due care, confidentiality and professional behaviour), and disclosure of their contents.

The conceptual approach to observing the fundamental principles of professional ethics. Identification of the various types of threats of violation of the fundamental principles of professional ethics, and assessment of their significance.

Examples of circumstances in which threats of violation of the fundamental principles of professional ethics can arise, in particular, the threat of self-interest, self-control threat, the threat of intercession, familiarity threats, threats of blackmail.

The inadmissibility of activities incompatible with the basic principles of professional ethics.

Precaution measures as the response to such threats.

Topic 3. Resolution of ethical conflicts

Conflicts arising from the application of the basic principles of professional ethics.

Evaluation of factors associated with ethical conflict. The possibility of involvement of third parties on condition of the confidentiality.

Actions of the auditor in case of failure to resolve an ethical conflict.

Topic 4. The conceptual approach to compliance with the basic principles of ethics in the conclusion of an Agreement for Professional Services

Eligibility of client relationships, assessing the acceptability of the job. Change of auditor. Conflict of interest. A second opinion. The auditor's remuneration. Advertising and professional services offer. Gifts and favours. Acceptance of deposit of client assets.

Topic 5. The conceptual approach to compliance with the independence principle

The conceptual approach to compliance with the requirements for the independence of auditors and audit firms: identifying threats to independence, the evaluation of their importance (quantitative and qualitative factors), the adoption of precautionary measures.

The auditor's independence: independence of thought and independence of behaviour.

Features of a conceptual approach to the requirements for independence in certain areas: network auditing organizations and network organizations, public interest entities, related parties, representatives of the owner; documentation, the period of the assignment, merger and acquisitions, other considerations.

Specific circumstances and relationships that create or may create threats to independence.

The potential risks and types of precautions that may be appropriate to eliminate those threats or reduce them to an acceptable level.

Cases in which there are no measures that could reduce the threat to an acceptable level.

Types of threats to independence.

Topic 6. Examples of possible circumstances and relationships that create or may create threats to independence

Examples of possible circumstances and relationships that create or may create threats to independence.

Possible circumstances and relationships that create or may create a threat to independence, depending on the amount and procedure of payment of remuneration.

Features of threats to the independence of the audited entities.

Topic 7. The auditor's report, including an indication of the limitation of its use and distribution

Features of the requirements for independence if the auditor's report contains an indication to the limitation of its use and distribution.

The deviations from the requirements of individual independence rules in certain circumstances, including:

audit of economic entities of public importance;

related parties;

networks and network organizations;

financial interest loans and guarantees; business relationships, kinship;

employment relationship with the entity;

the provision of services related to the execution of tasks that do not provide certainty.

Topic 8. Interconnection requirements of independence and fundamental principles of professional ethics in the auditing

Identifying threats of violation of the principle of objectivity when providing any professional services.

The conceptual approach as a way to comply with ethical requirements of the Code of Ethics and Rules of the independence of the auditors and audit firms.

The applicability of this approach in all circumstances that may create threats to independence and/or threat of violation of the fundamental principles of professional ethics as listed and not listed in the Code of Ethics and Rules of the independence of the auditors and audit firms.

Acronyms

ACCA	Association of Chartered Certified Accountants
CD	Compact Disk
CIMA	Chartered Institute of Management Accountants
CIS	Commonwealth of Independent States
CJSC	Closed Joint Stock Company
CPD	continuing professional development
EMA	Educational and Methodological Associations
ERP	Enterprise Resource Product
FAC	Financial and Accounting Consultants
GAAP	Generally Accepted Accounting Principles
GDP	Gross Domestic Product
IAESB	International Accounting Education Standards Board
IASB	International Accounting Standards Board
IES	International Education Standard
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standards
ISA	International Standards of Audit
ISAR	International Standards of Accounting and Reporting
LLC	Limited Liability Company
MBA	Master of Business Administration
OPEC	Organization of the Petroleum Exporting Countries
SRO	Self-Regulating Organizations
SVE	Secondary Vocational Education
TACIS	Technical Assistance to the Commonwealth of Independent States
UCC	Unified Certification Commission
XBRL	Extensible Business Reporting Language

Chapter VII. Case Study of the United Republic of Tanzania²⁶⁷

A. Introduction and background information

The United Republic of Tanzania is a developing country located on the eastern coast of Africa. With a population of 44.92 million (NBS, 2013) its economy is largely dependent on agriculture which accounts for about 25 per cent of the estimated GDP per capita of US\$1,700.²⁶⁸ The Dar es Salaam Stock Exchange (DSE) is the only stock exchange in the country and is located in Dar es Salaam, the capital city. There are 17 companies, of which 11 companies (about 65 per cent) are domestic, listed on the exchange.²⁶⁹ The total market capitalization is US\$8,876.62 million (Dar es Salaam Stock Exchange)²⁷⁰. The United Republic of Tanzania has a sizable small and medium enterprise sector. It is estimated that there are more than three million SMEs in the country (UNIDO, 2012) with a large proportion of businesses²⁷¹ considered to be informal. SMEs and the informal sector in general are considered to be an important source of employment, absorbing about 62.5 per cent of yearly urban labour force compared to 8.5 per cent absorbed by the formal sector.

The United Republic of Tanzania, like many other developing countries, is endeavouring to develop a strong accounting profession. Accounting is important as it deals with the interpretation of an entity's operations and finances and because it is the guiding force to sound management decisions in any entity. A good accounting system will facilitate accountability ensuring that those entrusted with responsibilities carry out their fiduciary duties accordingly.

Accounting is a dynamic discipline adapting to changes in the social, political and economic factors in most countries worldwide. The evolution and growth of accounting in the United Republic of Tanzania can be traced over two distinct periods. These are the pre-independence period and the post-independence period. Before independence accounting in the country was primarily 'traditional', in the sense that it was not formalized in the double entry system of current years. Accounting was accomplished using a myriad of traditional approaches involving traditional chiefs. Formalization of accounting occurred in the few years before independence with the introduction of the Companies Ordinance 1959 Chapter 212 (Mwinyimvua and Killagane, 1980). The Companies Act has since acted as the principle law requiring business entities to establish a system of accounting and maintain strict accounting records. The law had important provisions with regard to the keeping of a set of books of accounts, contents of the accounts and matters regarding audit of books of accounts and auditors. The Companies Act Cap 212²⁷² was in effect the foundation for modern accounting and corporate reporting in the United Republic of Tanzania.

Several factors have influenced the development of accounting since the United Republic of Tanzania's independence. These include the continued relationship with the United Kingdom and consequently developments affecting in the United Kingdom; changes in the business and political environment; international aid agencies and countries; international accounting bodies; expatriate accountants; and the continued use of foreign accounting literature for teaching as well as reference for practitioners

²⁶⁷ This case study was prepared and edited by the UNCTAD secretariat based on substantive input provided by Professor Ernest Kitindi, Department of Accounting at the University of Dar Es salaam Business School, Tanzania.

²⁶⁸ See Tanzania Economy 2013. Available from www.theodora.com/wfbcurrent/tanzania/tanzania_economy.html

²⁶⁹ See Annex VII.1.

²⁷⁰ Available from www.dse.co.tz/?action=market-report, accessed on 2nd August 2013.

²⁷¹ It was estimated at about 39.7 per cent of GDP in 2010.

²⁷² As it was referred to then.

(Kitindi, 1996). To date the Tanzanian accounting environment continues to be influenced not only by accounting events in the United Kingdom, but by other events attributable to international organizations and other globally influential countries. To a large extent corporate reporting practice in the United Republic of Tanzania has been influenced by such organizations like the International Accounting Standards Board (IASB) and the International Federation of Accountants (IFAC) through the International Auditing and Assurance Standards Board (IAASB). These two organizations have issued a number of financial reporting and auditing standards that have been adopted in many countries. The United Republic of Tanzania adopted the standards wholesale effective 1st July 2004 (National Board of Accountants and Auditors)²⁷³.

B. The national education system of the United Republic of Tanzania

The national education system in the United Republic of Tanzania is structured to provide seven years of primary education, four years of 'ordinary' level secondary education²⁷⁴ and two years of 'advanced' level high school²⁷⁵. Completion of primary education makes one eligible for the award of the Certificate of Primary Education. A person who has successfully completed the ordinary level education is awarded the Certificate of Secondary Education Examinations (CSEE), while a person who has successfully completed high school education is awarded the Advanced Certificate of Secondary Education Examinations (ACSEE). Thereafter a student can continue with tertiary level education in a university or other accredited institution. Up to a decade ago it was possible for an individual who has completed the ordinary level of education to embark on a career leading to becoming a professional accountant. It is now a requirement that a prospective professional accountant must have obtained education beyond that level.

Provision of professional accountancy education in the United Republic of Tanzania

In the context of this chapter professional accountancy education refers to education and training that leads to the award of a certificate enabling the holder to gain registration as a member of the profession and practice as a professional. There is a clear and elaborate mechanism in place that prescribes and oversees entry requirements to professional accountancy education in the United Republic of Tanzania. This mechanism revolves around the National Board of Accountants and Auditors of the United Republic of Tanzania (NBAA). NBAA²⁷⁶ was established as the accountancy professional body in the United Republic of Tanzania under the Auditors and Accountants (Registration) Act No. 33 of 1972, as amended by Act No. 2 of 1995. NBAA started its activities in January 1973 as a government parastatal operating under the Ministry of Finance of the United Republic of Tanzania. Box VII.1 shows the functions of the Board as delineated in the Act United Republic of Tanzania, 1972: Sect. 4 pp. 4–5; United Republic of Tanzania, 1995: Sect.3 pp. 7–9).

In this regard NBAA is both an accountancy regulatory professional body as well as an examining body for the accountancy professional qualifications. The first two and a few

²⁷³ Available from www.nbaa-tz.org/members/Standards.htm

²⁷⁴ Form I to Form IV.

²⁷⁵ Forms V and VI.

²⁷⁶ Synonymously referred to in this submission as 'the Board'.

others among the functions of NBAA emphasize the mandate given to the Board to further accountancy education in the country. However, NBAA does not train candidates who are preparing to sit for its examinations. Instead, NBAA collaborates with a number of training institutions, both public and private, that it has approved to train candidates for its examinations. Training can either be on full time or on part time basis, depending on the candidate's preference. There are a number of training institutions in the country that offer training and learning facilities for the candidates preparing for the Board's examinations.²⁷⁷

Box VII.1

Functions of the United Republic of Tanzania National Board of Accountants and Auditors (NBAA)

- To promote and provide opportunities and facilities for the study of, and for the training in, accountancy, auditing and allied subjects;
- To conduct examinations and to grant diplomas, certificates and other awards of the Board in accountancy, auditing and allied subjects;
- To sponsor, arrange and provide facilities for conferences, seminars, discussions and consultations on matters relating to accountancy and auditing;
- To arrange for the publication and general dissemination of materials produced in connection with the work and activities of the Board;
- To stipulate accountancy or auditing standards and guidelines as appropriate and to ensure the compliance of the standards and guidelines by the subjects;
- To maintain a register of Certified Public Accountants in Public Practice, Certified Public Accountants, Graduate Accountants, Accounting Technicians and practicing firms;
- To consider and decide upon applications for registration and to effect registration of Practicing accountants, Accountants, Accounting Technicians and practicing firms;
- To regulate the activities and conduct Accounts Public Accountants in Public Practice, Certified Public Accountants, Graduate Accountants Accounting Technicians and practicing firms;
- To evaluate foreign accountancy qualifications for exemption from parts of the Board's examinations;
- To formulate the appropriate National Accountancy Scheme and syllabi and oversee that Accountancy syllabi in training institutions throughout the country are in accordance with the National Accountancy Scheme and syllabi;
- To evaluate internal institutional accountancy qualifications for exemption from parts of the Board's examination; and
- To carry out such other functions after consultation with the Minister.

The professional accountancy examination scheme

The professional accountancy examination scheme and the process one has to go through to become a professional accountant has undergone various transformations over the years. In the period immediately following independence and before the onset of the NBAA, there was no scheme in place to facilitate the training of professional accountants in the country. Professional accountants were trained outside the country (Mwinyimvua and Killagane, 1980). To qualify for selection for such training, one must have obtained a university degree. There were a few institutions in the country that offered intermediate qualifications at the certificate and diploma level, the most notable

²⁷⁷ See Annex VII.3 for a list of institutions approved to provide training at the professional level.

ones being the former Nyegezi Social Training Institute²⁷⁸ and the former Dar es Salaam School of Accountancy²⁷⁹. An alternative route to intermediate qualification opened up in the late 1960s and early 1970s, in the form of the National Business Examination scheme. This route required interested persons to register and pursue part-time, evening courses for the National Business Examinations (NABE). This scheme consisted of three stages the third stage being the equivalent of a diploma²⁸⁰.

The creation of the NBAA in 1972 ushered in a new examination scheme consisting of three examination levels of National Bookkeeping Certificate (NABOCE), National Accountancy Diploma (NAD) and Certified Public Accountant [CPA (T)] (NBAA, 1993).²⁸¹ This scheme provided some flexibility to candidates seeking to become professional accountants by allowing them to enter the stream at any level depending on the qualifications they held. For example, a graduate could go straight to the CPA level whereas a person with a secondary school certificate could only start at the certificate level or perhaps the diploma level.²⁸² The NAD and CPA (T) examinations were in two parts each²⁸³, NAD I and NAD II, and CPA I and CPA II. National Accountancy Diploma (NAD) was granted only after completing both diploma parts. Likewise, only after completing examinations for the CPA II was the CPA (T) title granted. This title enabled one to be registered as a graduate accountant. The graduate status was so because one could not be registered as a professional accountant until after completing the mandatory three years of practical experience.

Following revisions to the examination scheme and the adoption of a new scheme in 1989 the Basic Bookkeeping Certificate and NABOCE were replaced with the Accounting Technician Certificate (ATEC), also with two levels – Technician level I with four subjects and Technician level II with five subjects (NBAA, 1989). The Accounting Technician Certificate is awarded after successful completion of the Technician level II examinations. This also grants the graduate registration as an Accounting Technician. For the professional level examinations the new scheme replaced the old syllabus consisting of NAD I, NAD II, CPA I and CPA II examinations with Professional levels I, II, III and IV respectively.

The current scheme has further revised the professional syllabus. The examination structure for the professional syllabus now has three stages, each with two modules. The Foundation Stage consists of modules A and B, each with four examinable subjects. The Intermediate Stage consists of modules C and D and the Final Stage has modules E and F. Each module in the latter two stages has three examinable subjects. Candidates are required to complete each stage before progressing to the next, and the Certified Public Accountant (CPA [T]) certificate is granted only upon successful completion of the Final Stage examinations, which also makes the candidate eligible for registration as a Graduate Accountant (NBAA, 2010).²⁸⁴

Entry requirements to the professional accountancy examinations

²⁷⁸ Now Saint Augustine University of Tanzania – SAUT.

²⁷⁹ Now Tanzania Institute of Accountancy – TIA.

²⁸⁰ An award given to a person who has completed the equivalent of two years of full time training in a particular field, in this case, in accounting.

²⁸¹ A fourth basic level, Basic Bookkeeping Certificate (BBC) was added a short while later.

²⁸² Another reason, apparently, was the need to address the shortage of accounting technicians facing the country during those times, partly due to an expanded public sector with the many parastatal entities that existed then.

²⁸³ The 'T' stands for Tanzania, to differentiate this certification from those in other countries.

²⁸⁴ In mid 2013, it was announced that a new syllabus is ready and will be implemented beginning with the examination session of November 2014. See: National Board of Accountants and Auditors. Revised syllabus to be tested effective from November 2014 Examination Session.

NBAA has specified the requirements for entry to the accountancy examinations and accounting cadre. These requirements differ depending on the entry point to the professional examination scheme one is aspiring for. The entry requirements to the professional accountancy level examinations are sufficiently high and are in line with entry requirements to professional examinations in countries like Kenya and Uganda. For example, possession of the ACSEE is required, with minimum pass levels specified. Professional level examinations require candidates to have completed an education programme leading to the award of a degree, or equivalent, in accounting. Degree programmes in the United Republic of Tanzania have a minimum duration of three years if attendance is full-time. If attendance is on a part time basis, the degree programme may take longer to complete. Entry to a university itself is guided by strict admission requirements that are closely monitored by the universities themselves. The Board has prescribed entry requirements to its examinations as shown in box VII.2 (NBAA, 2010).

Box VII.2

Entry requirements to various modules of NBAA professional examinations

Foundation stage module A

Candidates for Module A examinations must hold the Accounting Technician Certificate issued by NBAA. Alternatively, they must have a Diploma from a recognized training institution, which Diploma must be centred on Business Studies. Such candidates with a Diploma must have scored at least two principal passes in the Advanced Certificate of Secondary Education Examinations (ACSEE) or at least three credit passes in the Certificate of Secondary Education Examinations (CSEE). Another alternative is for the candidates to have an Advanced Diploma or a Degree from a recognized and accredited training institution. Holders of non-accounting degree qualifications must start with this module, and the requirement for at least two principal passes in the ACSEE or at least three credit passes in the CSEE applies.

Foundation stage module B

Candidates for Module B examinations are expected to have passed examinations for Module A. Candidates with an Advanced Diploma/Degree from a recognized and accredited training institution, whose studies were centered on Business Studies are also eligible to sit for examinations of Module B. They must have at least two principal passes in the ACSEE or at least three credit passes in the CSEE. The Board also allows candidates with the professional certification 'Certified Supplies Professional' to enter the accountancy professional examinations at Module B.

Intermediate stage module C

Candidates entering the professional scheme at Module C must hold a Diploma in an accountancy qualification from a recognized training institution and whose qualification has been accredited by the Board. They must have obtained at least two principal passes in the ACSEE or at least three credit passes in the CSEE.

Intermediate stage module D

Candidates aspiring for this module must have completed Module C.

Final stage module E

Candidates entering the scheme at the Final Stage Module E must have obtained a Degree in Accounting or with a major in Accounting from a recognized training institution and whose qualification has been accredited by the Board.

Final stage module F

Candidates aspiring for this module must have completed Module E.

For those holding qualifications from outside the United Republic of Tanzania, the Board has a mechanism by which such foreign qualifications are assessed to determine whether to allow or not such candidates to register and sit for the examinations, including the appropriate entry level. The Board normally requires that the foreign qualification should have been acquired from an institution accredited by an approved (accountancy) regulatory body in the country where it has been obtained. This assessment is in fulfilment of one of the functions of the Board as delineated in the Act establishing NBAA.

All candidates aspiring for the professional examinations must register with an institution approved by the Board to offer training for the professional examination scheme. The training is predominantly in the form of review sessions, i.e. revision of

material candidates are supposed to have learnt earlier and have some knowledge on. The task of these institutions is to facilitate the review sessions after which candidates sit for the examinations. These institutions have no role in determining whether a candidate is ready for the examinations or not. It is up to the candidates themselves to assess their readiness to write the examinations. This could be a weakness in the process in that it allows candidates who are actually not ready to write the examinations to do so. As a result, it is possible that some students actually sit for the examinations while they are not sufficiently prepared.²⁸⁵ Candidates without a university degree in accounting are assessed, for purposes of entry to the examinations scheme, using a variety of measures including minimum passes in the ACSEE. Their entry into the examinations scheme is at a lower level than that of accountancy degree holders, and they too must register with an NBAA-approved training institution before attempting the examinations.

All candidates, regardless of mode of entry, may be required to resit examinations. The Board provides for a “referral status” (NBAA, 2010) which is a situation whereby a candidate is given opportunities to retake the examination of a failed subject within a specified period of time. Referral is applicable if a candidate fails not more than two subjects in any examination level as may be determined by the Board, and the Board determines the period of time within which the failed subject(s) must be cleared. To pass the examination of any subject, the Board has set a pass mark of 40 per cent (NBAA, 2010:12). Finally, candidates must pass a stipulated minimum number of subjects for each level. Those unable to pass the minimum number are allowed to resit examinations for the entire level within a maximum of four examination sessions. Inability to pass examinations for a particular level after four examination sessions leads to withdrawal of the student’s registration status.

Having gone through the process above, and successfully completed the Final Stage Modules E and F, candidates are awarded a Certificate of Completion of the Certified Public Accountant [CPA (T)]. As explained above, this grants the certificate holders eligibility for registration as Graduate Accountants until after they gain three years of approved relevant accountancy or auditing experience under the supervision of a registered CPA or CPA-PP²⁸⁶. A candidate who fulfils this requirement is registered and recognized as an Associate Member of the National Board of Accountants and Auditors and may use the letters ‘ACPA’ after his or her name (National Board of Accountants and Auditors, 2012b).

The NBAA examinations commence at the lower level of Accounting Technician. Entry requirements to these examinations are different. A person holding the Accounting Technician certificate can register to start training for the first module examinations of the NBAA. If good, the candidate can progress upwards and, upon completion of the fourth and last module, the candidate is treated in the same way as one who started with the third module.

In view of the above, it is apparent that the entry requirements are quite high. Examination results over the years have been disappointing. For example, table VII.1 shows that the highest pass rate for examination results of the November 2012 examination session for the professional level examinations is 48 per cent. Failure rates are as high as 59 per cent. The overall failure rate is over 48 per cent with only 17.6 per cent passing overall. Furthermore, an analysis of performance trend for eight examination sessions from November 2008 to May 2012 shows overall pass rates ranging from 16.7 per cent to 25 per cent only. Hence, the likelihood that a candidate

²⁸⁵ This could also partly explain the apparent high failure rate in NBAA examinations.

²⁸⁶ Certified Public Accountant and Certified Public Accountant in Public Practice respectively.

will pass the examinations on the first attempt is very small indeed. The November 2012 results do suggest nevertheless that some modules may be easier to pass than others.

Table VII.1

Approved results of the NBAA professional examinations held in November 2012

76th Examinations Results November 2012									
General Statistics Analysis of Examination Results									
Exam Level	Total sitting examination	No. passed	% passed	No. referred	% referred	No. re-referred	% re-referred	Fail	% fail
Foundation Module A	65	24	36.9	15	23.1	18	27.7	8	12.3
Foundation Module B	109	47	43.1	24	22	30	27.5	8	7.3
Intermediate Module C	156	25	16	31	19.9	39	25	61	39.1
Intermediate Module D	131	63	48.1	25	19.1	28	21.4	15	11.5
Final Stage Module E	2 033	304	15	241	11.9	280	13.8	1208	59.4
Final Stage Module F	1 110	173	15.6	227	20.5	275	24.8	435	39.2
Total	3 604	636	17.6	563	15.6	670	18.6	1735	48.1

Source: National Board of Accountants and Auditors (2012a).

Entry requirements as a barrier to entry to the profession

Stringency of the requirements to the professional accountancy examinations and the apparent low pass rates may appear to be hindrances to potential candidates who have an interest of becoming professional accountants. However, analysis of the candidature trend to the professional level examinations for six consecutive sessions up to November 2012 is indicative that the entry requirements do not hinder candidature to the examinations. Table VII.2 presents the candidature to the six modules of the professional level examinations from May 2010 to November 2012.

Table VII.2

Examination candidature trend for six examination sessions to November 2012 for the professional level examinations

Module	71 st Session May 2010	72 nd Session Nov 2010	73 rd Session May 2011	74 th Session Nov 2011	75 th Session May 2012	76 th Session Nov 2012
A	130	110	83	93	68	68
B	119	129	123	125	118	123
C	176	143	136	142	169	174
D	153	129	117	120	121	144
E	2 319	2 130	2 456	2 192	2 503	2 301
F	802	798	910	924	1 085	1 160
	3 699	3 439	3 825	3 596	4 064	3 970

Source: National Board of Accountants and Auditors (2012a).

With the exception of candidature to Modules A and F there does not appear to be a marked difference in candidature levels for the May 2010 and November 2012 sessions, albeit with some dips in between. Candidature to Module A examinations does appear to have declined over the six sessions, while that to Module F examinations increased. However, when the aggregate candidature is considered, a general increase is evident. This overall increase in candidature could possibly suggest that entry requirements do not constitute a barrier to entry as there is an apparent demand for the professional qualification.²⁸⁷

The apparent decrease in candidature to Module A and increase in candidature to Modules E and F could be occasioned by a reduction in the number of candidates coming from the ATEC and other non-accounting degree qualifications and a corresponding increase in candidates with an accounting degree who enter the examination scheme at a higher level.²⁸⁸ However, it is also true that many candidates consider the examinations to be difficult. This belief may be a factor in decisions to postpone writing the examinations but does not appear to be affecting interest in the professional qualification.

Practical experience as a requirement for registration as a professional accountant

All CPA graduates must acquire a minimum of three years of supervised practical experience before they can be considered for registration as professional accountants. Before this practical experience requirement is satisfied CPA graduates can only be registered as Graduate Accountants. This registration category does not provide the graduate with rights to, among others approve accounts of a business entity in his or her own name. Supervision is provided by an experienced accountant or auditor who must be registered with the Board as a CPA or CPA-PP. Section 5(2) of the NBAA by-laws stipulate that the Board should make available to each Graduate Accountant a practical experience log book wherein the Graduate Accountant records the nature of practical experience gained during each year (United Republic of Tanzania, 2012). The

²⁸⁷ The likely explanation for the decrease in candidature to Module A could be the apparent preference for a degree qualification, in this case in accounting. The entry requirements for the degree programme are similar to those for candidature to Module A. The ATEC certificate is, however, not acceptable for entry to a degree programme.

²⁸⁸ See box VII.2.

log book is essentially a record of all work that is done by the Graduate Accountant as part of the supervised training.

The Graduate Accountant is required to complete the log dutifully, after which the supervisor signs to confirm the entries in the book. According to section 4(1) and 4(2) of the by-laws the log book is submitted to the NBAA after the practical experience period together with the Graduate Accountant's application for membership and registration as an associate member (United Republic of Tanzania, 2012). The Board then scrutinizes the application and all accompanying attachments including the log book to satisfy itself that the Graduate Accountant has indeed attained the desired practical experience. The Board requires that such practical experience should be in an approved area such as accounting, auditing, taxation, financial advisory, etc. Hence, it is through the log book that consistency of the practical experience is assured.

Graduates wishing to pursue a career as auditors must undertake their three year practical training in an auditing environment, under the close supervision of a registered senior auditor. Auditors are registered with the Board, after the three year relevant practical experience, as Certified Public Accountants in Public Practice, abbreviated CPA-PP. There is no major difference in training between accountants, who are designated as CPA, and auditors. NBAA does not differentiate accounting according to the major branches of Financial Accounting, Management Accounting, Auditing, etc. as some other professional associations do.²⁸⁹ Hence all accountants sit for the same examinations set by the Board. However, a graduate interested in becoming an auditor is expected to do most/all of the practical experience in audit-related work, under an approved supervisor registered with the Board as CPA-PP. In addition, consequent to registration as CPA-PP, such person will be required to have 40 hours of CPD instead of the 30 hours required for the CPA. Ideally the auditor's CPD hours will comprise mostly of audit-related training, although the NBAA does not have a policy on this. At the moment, there are no plans to have separate training for the different accountancy functions.

C. The regulatory framework

Rules applicable to accounting professionals in the United Republic of Tanzania and the IFAC and NBAA Codes of Ethics for Professional Accountants

Professional accountants in the United Republic of Tanzania are governed by rules that must be observed in the conduct of their activities. Generally, the NBAA by-laws prescribe rules that must be observed by accounting professionals in the United Republic of Tanzania. NBAA, a government parastatal established by law²⁹⁰, is guided by the law establishing the Board as well as the NBAA by-laws passed by the Board. In passing the by-laws NBAA, being a member of IFAC, takes into consideration pronouncements passed by IFAC. Since NBAA is a statutory organ, it has legal powers to sanction its members, but generally all accountants practicing in the country. NBAA is only one organization with which accountants in the United Republic of Tanzania have obtained their qualification.²⁹¹ Other organizations and associations through which accountants have qualified and in which they retain membership include the Association of Chartered Certified Accountants (ACCA), the Chartered Institute of Management Accountants (CIMA), and the Institute of Chartered Accountants in

²⁸⁹ For example in the UK there is ACCA for accountants and auditors and CIMA for management accountants.

²⁹⁰ See Note 10.

²⁹¹ Accountants are not obligated to qualify through the NBAA route.

England and Wales (ICAEW). Hence, when it comes to discipline individual members are also regulated by the rules applicable to those organizations and associations.

The Tanzania Association of Accountants (TAA) also gives mention of rules governing the accountancy profession in the United Republic of Tanzania. However TAA is not a member of IFAC and the guidance is limited to a statement to the effect that accountants are governed by rules prescribed by the bodies they are affiliated to, for example NBAA, or some other. TAA further prescribes, with regards to complaints handling, that any individual who has concerns in relation to an accountant or an accountancy firm is entitled to make a complaint to the relevant accountancy body. Each accountancy body has its own procedure for handling complaints and disciplining members whose professional and ethical standards fall below reasonable expectations. It is apparent that the position of TAA within the fraternity is weak. TAA is a member's association that was formed after the NBAA was established, and is registered under the Registrar of Societies Act. The TAA serves members' interests only and does not have any legal sanction on its members. TAA has largely been ineffective, partly because of this lack of legal backing, the fact that it does not run any examination scheme, and also due to capacity constraints caused by a lack of interest by the majority of accountants.

In the conduct of their professional work accountants in the United Republic of Tanzania are governed by the Code of Ethics promulgated by the NBAA through the NBAA (Code of Ethics) by-laws, 2013 (National Board of Accountants and Auditors, 2013). NBAA members are required to observe the Code of Ethics as described in the NBAA by-laws. It can be argued that the Code is local in its formulation. On close examination there is no significant difference between the NBAA Code of Ethics and the IFAC Code of Ethics. The local Code differs with the IFAC Code only because the NBAA Code includes some items not addressed by the IFAC Code. The items addressed by the NBAA Code of Ethics are exemplified in box VII.3. TAA also has a Code of Best Practice. Though not as detailed as the NBAA Code of Ethics it addresses more or less the same issues addressed by the NBAA Code. The TAA Code of Best Practice is included in this document as annex VII.4. In the event of a conflict among the IFAC Code of Ethics, the TAA Code of Best Practice and the NBAA Code of Ethics, where the code is pronounced in the NBAA Code of Ethics, then the NBAA code prevails.²⁹²

²⁹² NBAA strives to incorporate the IFAC Code of Ethics in its By-Laws. Only a few items in the IFAC Code are not pronounced in the NBAA Code. These are Professional Appointment, Second Opinions, and Gifts and Hospitality. Financial Interests is considered with regard to professional accountants in public practice under this Code. The NBAA Code prevailing does not necessarily imply a contradiction of the IFAC Code.

Box VII.3

NBAA Code of Ethics

Part II: FUNDAMENTAL PRINCIPLES

3. Integrity
4. Objectivity
5. Professional competence and due care
6. Confidentiality
7. Professional behaviour

Part III: PROFESSIONAL ACCOUNTANTS IN PUBLIC PRACTICE (CPA-PP)

8. Integrity, objectivity and independence
9. Financial involvement
10. Appointment in companies
11. Provision of other services to audit clients
12. Preparation of clients' accounting records
13. Personal and family relationships
14. Income
15. Contingency fees
16. Goods and services
17. Capital ownership
18. Long association of senior personnel with audit clients
19. Professional competence
20. Conflicts of interest
21. Fees
22. Commission
23. Incompatible activities
24. Clients' monies
25. Relations with other professional accountants in public practice
26. Receiving accountant
27. Existing accountant
28. Superseding professional accountant
29. Proposed Professional Accountants in Public Practice
30. Advertisement and solicitation
31. Publicity by an individual professional accountant in public practice
32. Circumstances in which publicity is acceptable
33. Tax practices
31. Material error or omission in Tax Return

Part IV: PROFESSIONAL ACCOUNTANTS IN COMMERCE, INDUSTRY AND THE PUBLIC SECTOR

35. Disciplinary procedures for non-compliance
36. Ethics and Disciplinary Committee
37. Potential Conflicts
38. Support for professional colleagues
39. Professional competence
40. Preparation and reporting of information
41. Inducements for Professional Accountant in commerce
42. Tax practice

Continuing professional development as a requirement for keeping licence/certification

NBAA has a mandatory CPD policy which became effective on 1st January, 2009.²⁹³ The Board requires all members of the profession to participate in approved CPD sessions. This is usually in the form of attendance to a course, seminar or workshop or conference. The objective of CPD is to encourage the Board's members to update and expand their knowledge in the face of changes and growth in the body of knowledge and skills required to maintain high standards demanded of a professional accountant. For the members to meet the registration requirements of NBAA, the Board has set a minimum of 40 CPD hours per annum for Certified Public Accountants in Public Practice (CPA-PPs), 30 hours per year for Certified Public Accountants (CPAs) and Graduate Accountants (GAs) and 20 CPD hours per annum for Accounting Technicians (ATs). The CPD Policy does not specify the subject matters to be covered by any of the CPA-PPs, CPAs, GAs or ATs. CPD themes have in the past included issues in accounting, auditing, taxation, finance and related fields. NBAA often collaborates with some other institutions in organizing the CPD events.

The content of CPD in the United Republic of Tanzania reflects a wide variety of issues that are of relevance to the profession in general and the United Republic of Tanzania in particular.²⁹⁴ Accounting is a dynamic profession that is striving to keep abreast with global developments. New developments that occur globally in accounting must be assimilated by accountancy organizations. Hence, in the United Republic of Tanzania for example, the abandonment of local accounting standards in favour of IFRS and IAS has made it necessary for local accountants to be trained on the international standards and on how to apply the standards in the preparation of financial reports. IFRS/IAS has featured in many CPD engagements, but there are other issues, both international and local, that are covered by the various CPD events organized in the country. The table in annex VII.2 shows some CPD events that have occurred and are planned to occur during 2013. These CPD activities are designed to provide members with between eight hours and 24 hours of CPD.

Accreditation mechanism for CPD providers and availability of CPD courses

Currently there is no accreditation mechanism *per se* for CPD providers. There are a number of institutions that are active in providing CPD to professional accountants. These include the NBAA itself and professional accountancy firms, especially the “big four” audit firms. Occasionally, some other institution may offer a CPD programme, usually from among the recognized accountancy education institutions and universities, and sometimes in collaboration with institutions like the Bank of Tanzania, the Tanzania Revenue Authority, the Capital Markets and Securities Authority, and others. CPD programmes must be approved by NBAA for recognition as contributing to CPD hours, and any advertisement/announcement will indicate the fact that the programme is so approved.

CPD courses and seminars, etc. are readily available in the country and are open to all members of the profession. CPD courses are usually advertised on the NBAA website, in the national newspapers, and sometimes on national television stations. This ensures that the information is disseminated as widely as is possible. Usually employers pay for their staff to attend CPD. CPD is often conducted in the regions outside Dar es Salaam, the capital city, to enable members outside Dar es

²⁹³ See: National Board of Accountants and Auditors. Mandatory Scheme of Continuing Professional Development (CPD) for Registered Accountants and Auditors.

²⁹⁴ Based on discussions with an official of NBAA.

Salaam to benefit from a CPD organized in their neighbourhood. On rare occasions a CPD event may be organized for some members of specific organizations or institutions like the Bank of Tanzania or Tanzania Revenue Authority. These types of CPD, if approved by NBAA, also contribute to CPD hours.

Verification of CPD credits and enforcement of CPD requirements

According to Section 19 of the NBAA (membership and Registration) by-laws, 1997, a record and return of CPD hours must be made on prescribed forms and submitted to the Board at the end of each calendar year. Normally, the CPD organizer will issue certificates of participation at the end of each CPD event. These certificates indicate the title of the CPD session and the number of hours gained from each event as approved by the NBAA. CPD hours are accumulated for 12 calendar months and the annual CPD return is prepared by the professional accountant and submitted to the Board at the end of each calendar year. The forms are considered evidence of attendance to a CPD event, supported by any certificates issued at the end of the CPD session. However, no central roster of CPD trainees which can be used to find out who has attended how many hours of CPD and who is not appearing on the roster, etc. exists.

NBAA enforces compliance with the CPD requirement by making it a condition for the renewal of the CPA-PP certificate of practice. For other CPAs, monitoring and sanction mechanisms are fairly weak and usually apply when an accountant wants to move from the associate member category to a fellow member category, at which time the Board reviews the minimum CPD requirements. No reports are available with regard to instances of non-compliance. Nevertheless, in the event of a member's non-compliance with CPD requirements, NBAA has an elaborate plan on hand concerning action to take. Upon giving due notice to the member NBAA will impose disciplinary proceedings or sanctions that include the following:²⁹⁵

- (i) refusal to honour any application for registration as a new member.
- (ii) refusal to upgrade the member from Associate to Fellow membership.
- (iii) refusal to issue a Certificate of Practice.
- (iv) demotion from Associate Member status to Graduate Accountant status or from the status of Fellow Member to that of Associate Member.
- (v) in serious cases, deregistration from the Board's membership registers. In all cases such a decision will be published in the official government gazette pursuant to the requirements of the NBAA By laws.

Nevertheless NBAA is faced with a number of challenges in implementing the sanctions on dissenting members. Key among the challenges is the limited resources provided to the Board. As is evident by referring to the functions of the Board delineated in the establishing Act, NBAA has been inundated by the statutory requirements that it is expected to perform but has not been adequately resourced financially. Hence, it is very possible, for example, that a member may fail to attain the minimum CPD hours required and yet avoid any possible sanctions that could have been meted out on him or her.

²⁹⁵ National Board of Accountants and Auditors. Mandatory Scheme of Continuing Professional Development (CPD) for Registered Accountants and Auditors. On 15th October 2009 the NBAA Disciplinary Committee suspended two audit firms, M/S. Mangesho and Company and M/S Financial Consultants and Services, for a period of two years with effect from 15th October 2009 on matters concerning their audit work. The suspension has since been lifted. See "Lifting of the Suspension of Two Audit Firms (M/S Financial Consultants and Services & M/S Mangesho and Company)", available from <http://www.nbaa-tz.org/lift.pdf>.

Enforcement, discipline, sanctions, withdrawal of licence/certification due to misconduct

Professional accountants in the United Republic of Tanzania, registered or not, are required to abide to all by-laws issued by NBAA. Primarily accountants are required to adhere to the NBAA Code of Ethics. The by-laws specify a number of measures that can be taken against any professional accountant breaching provisions of the by-laws and failing to adhere to the Code of Ethics. Measures include:

- (a) Deregistration of the member with subsequent announcement in the Gazette and the accountancy journals issued by the NBAA;
- (b) Penalty at the rate that shall be determined by the Board from time to time;
- (c) Court prosecution where serious breach of these by-laws has been committed by a member.
- (d) Any other disciplinary action as may be directed by the Governing Board of NBAA.

Anecdotal evidence suggests that measures also include suspension from the members' roster as a prelude to outright deregistration coupled with announcement in the local newspapers, usually both *The Daily News*, a government-owned newspaper, and *The Guardian* which is privately owned. It appears for less serious offences the Board prefers to warn the offender first before the harsher measures are implemented and that the Board is likely to take quick and harsher action on violations involving a client listed on the stock exchange than one who is not.²⁹⁶ Otherwise, many issues involving accountants/auditors that could have been referred to NBAA for action are resolved at the entity level or between a client and its auditors and do not reach the Board. According to an official of the Board, few matters that have reached the Board so far mostly required advisory intervention rather than sanction. Very few serious matters have actually invoked sanctions by the Board in the form of suspension or warning.²⁹⁷

D. The institutional framework

Institutions involved in the process of education and certification

Several institutions offer accountancy education in the United Republic of Tanzania. Tuition is provided mainly in a formal classroom setting. There are currently 48 institutions²⁹⁸ registered with NBAA to provide accountancy tuition to students preparing for the Board's examinations. Of these, ten are government owned including one ministerial department, eight are universities or other tertiary education institutions. NBAA requires prospective students to enrol with one of the registered providers to become eligible to sit for the Board's examinations. These recognized tuition providers are monitored by the Board to ensure they meet the minimum standards to carry out the activity, and at least once yearly, a workshop aiming at improving the training delivery is conducted with the tuition providers. In addition, training providers are required to submit an annual return form for assessment and to keep the Board informed of the training activities and developments taking place at their centres. Training institutions registered and recognized by NBAA are shown in annex VII.3. These institutions

²⁹⁶ Based on discussions with an official of NBAA.

²⁹⁷ A professional accountancy firm, E.K. Mangesho & Co., was suspended for mishandling financial statements of a client.

²⁹⁸ See: National Board of Accountants and Auditors. List of accountancy tuition providers recognized by NBAA. The list has 50 centers. Two institutions have two centers each.

provide training only. Examination setting, marking and eventually certification are done exclusively by NBAA.

Institutions in charge of setting rules and regulations on accounting, and implementing them

Most of the rules and regulations on accounting and auditing concern personnel who are allowed to be associated with financial reporting by entities. Several legislations exist in this regard and these are associated with different institutions. Below are some of the institutions and the legislations they are associated with:

The NBAA:

NBAA is the regulator of the accountancy profession in the country. NBAA, a government parastatal organization, is empowered by and performs its duties in accordance to the Auditors and Accountants (Registration) Act of 1972, as amended in 1995. The Board doubles as the professional accountancy organization. Among its responsibilities are ensuring the strict application of accounting standards in the preparation of financial reports and adherence to auditing standards in the conduct of audit engagements in the country. The Act also empowers NBAA to formulate various rules and regulations in carrying out its responsibilities. These include requiring that all legal entities, incorporated or unincorporated, with assets and turnover exceeding set levels must employ at least one Certified Public Accountant (CPA).²⁹⁹ Entities that do not meet the threshold are still required to keep proper books of accounts.

The Tanzania Revenue Authority:

Tanzania Revenue Authority (TRA) is a government organ with sole responsibility for collecting revenue on behalf of the Government. Most, if not all, of the revenue derives in the form of taxes and levies. Income taxation is a major way through which the Authority collects revenue. TRA enforces the Income Tax Act (2004)³⁰⁰. TRA is interested primarily to receive financial statements which it uses to assess taxation. Such statements must be prepared using acceptable bases, in an acceptable manner, and must be submitted on time. To this end the Income Tax Act (2004) requires corporations to submit to TRA an annual return of income within six months of the tax year-end. The return must be prepared or certified by a Certified Public Accountant in Public Practice (CPA-PP), who must include a declaration that the return is complete and accurate (United Republic of Tanzania, 2004: Sect. 91[2] [b] and [c]). The Act further requires that only persons approved by the Commissioner for Tax can act as tax consultants.

The Registrar of Companies:

The Registrar of Companies is a government official entrusted with registration and licensing of all limited liability companies, public and private, in the country. According to the Companies Act (United Republic of Tanzania, 2002: Sect. 450[1]), the Registrar of Companies is appointed by the Minister.³⁰¹ The Act has several

²⁹⁹ The set levels are an asset base exceeding TSh 100 million or annual gross turnover exceeding TSh 50 million. See United Republic of Tanzania (1972: Sect. 24[1][a] and [b]) as amended in 1995.

³⁰⁰ A revised edition was released in 2006.

³⁰¹ The Act does not name the minister, but it is understood that it is the minister responsible for commerce.

pronouncements associated with financial statements of business entities. These include the requirement to file annual returns with the Registrar, including determining the contents of such returns and any other attachments thereto (Sections 128–132), regulations concerning establishment and maintenance of books of accounts and the books being audited (Sections 151–169), and on appointment of auditors and other matters related to auditors (Sections 170–179). The Act requires a person to be appointed as auditor to be a CPA.³⁰² Under the Act, audited financial statements have to be filed with the Registrar of Companies within seven and ten months of year-end for public and private companies, respectively. It also provides that a private company meeting certain qualifying conditions may be exempted from audit. These qualifying conditions have, however, not been pronounced yet.

The Capital Markets and Securities Authority:

The Capital Markets and Securities Authority (CMSA) was established as a government parastatal organization under Ministry of Finance by the Capital Markets and Securities Act of 1994. The functions of the Authority are clearly delineated under Section 10 (a) to (m) of the Act. These include maintaining surveillance over securities to ensure orderly, fair and equitable dealings in securities; registering, licensing, authorizing or regulating, stock exchanges, investment advisers, securities dealers, and their agents and controlling and supervising their activities with a view to maintaining proper standards of conduct and professionalism in the securities business; determining the minimum capital requirement for a licence holder; monitoring the solvency of licence holders and taking measures to protect the interest of customers where the solvency of any such licence holder is in doubt; regulating initial disclosures of companies intending to list, and advising the Minister³⁰³ on all matters relating to the securities industry.

The Act requires every stock exchange dealer to keep accounting records that will correctly record and explain the transactions and financial position of the business (Section 67). The Act further directs that dealers must appoint an auditor (Section 71). The Act is silent on the qualification of the auditor, but it can be assumed that he/she must be a CPA-PP. The Capital Markets and Securities (Accounting and Financial Requirements) Regulations (1997), as amended in 2003, go further to require brokers, dealers, and investment advisors to prepare annual financial statements in accordance with Tanzania Financial Accounting Standards (TFAS) issued by the NBAA.³⁰⁴

The Bank of Tanzania:

The Bank of Tanzania (BOT) regulates financial reporting by banks and nonbank financial institutions³⁰⁵ under the Banking and Financial Institutions Act (1991) and the Bank Supervision Regulations. Under this Act, banks must have statements of accounts ready for submission to Auditors within two months of the close of the financial year of each bank or financial institution [Section 16(1)]. Banks must appoint an independent auditor who is approved by the bank, and such auditor has a right to report directly to the Bank of Tanzania on any matter he/she may deem

³⁰² Section 175 of the Act says a person shall not be qualified for appointment as Auditor of a company unless he is a certified public accountant (CPA). In the strict sense he/she must be a CPA-PP.

³⁰³ Presumed to be the Minister of Finance.

³⁰⁴ TFAS have since been replaced by IFRS/IAS.

³⁰⁵ Financial institutions that do not offer commercial banking services. An example is the Tanzania Mortgage Refinance Company.

necessary to so report [Section 16(2)]. The Independent Auditors Regulation (2000) requires the auditor to ensure that the financial statements are in line with the NBAA standards and guidelines or, in their absence, IFRS/IAS. Both commercial banks and nonbank financial institutions must submit unaudited quarterly financial statements in a prescribed format to the Director of Banking Supervision within 45 days after the end of the quarter and publish results in newspapers.

The Tanzania Insurance Regulatory Authority:

Tanzania Insurance Regulatory Authority (TIRA) is charged with responsibility for coordinating policy and other matters relating to insurance in the country. The functions and duties of the Authority are to promote and maintain an efficient, fair, safe and stable insurance market for the benefit and protection of policy holders (United Republic of Tanzania, 2009). TIRA also regulates the financial reporting practices of insurance companies under the Insurance Act (2009). Insurance companies are required to adhere to the Companies Act, 2002. Hence, they must prepare books of accounts as stipulated in that Act. Audited annual financial statements of the insurance companies have to be submitted to the Commissioner of Insurance within 3 months after year-end and quarterly statements must be submitted within one month after the end of the relevant quarter. The Insurance Act of 2009 also prescribes the qualities and qualifications required for an auditor of an insurance company.

The above are the key institutions and the relevant statutes that set rules and regulations on accounting, and implementing them. There are others that mostly refer their entities to the Companies Act, 2002 and are therefore not worth specific mention. All in all, it is apparent that accounting is a matter of concern to many institutions, and it is clear that many legislation concerning entities also reflect the concern on accounting. Except for the Registrar of Companies, and to some extent the Tanzania Revenue Authority, the institutions named above contribute to capacity-building in the area of accounting through their efforts to train their staff in accounting at various levels. Clearly, the NBAA has the mandate to train accountants at the professional level. The other institutions sponsor their staff for postgraduate programmes in accounting and facilitate their training for professional examinations. Many of them, including the Tanzania Revenue Authority, employ relatively large numbers of accounting graduates from the universities. The Registrar of Companies, being a government agency, relies more on training and recruitment done centrally by Government.

Coordination, exchange of information and process for interaction among accounting institutions

There is little coordination of activities among the various institutions referred to above in regard to accounting education and in ensuring the reporting requirements are met. Although the statutes cited above all show interest in financial reporting by entities, each statute addresses the specific needs of the institution it relates to. Each of the institutions named above performs its functions with little interaction with others. Generally for accounting and auditing matters most of the institutions look towards NBAA for guidance. The Auditors and Accountants (Registration) Act, as amended, gives NBAA control over the conduct of registered auditors and accountants. In the same way that the Board registers accountants and auditors, it can also cancel or suspend such registration, with good cause. For NBAA to take such action it must be notified of the event that makes it necessary for it to take action. Such notification is given by the organization where the event has taken place. There is no evidence of

communication of this kind between the entities and NBAA. Usually entities deal in their own way with any matter concerning professional accountants and/or auditors. For example an entity may simply resort to dismissing the accountant or auditor who has infringed upon the interests of the entity.

There are difficulties in achieving coordination at the country level. One factor behind this difficulty is the very fact that institutions involved are not created under the same law and therefore are not compelled to involve the other in their activities. For example, referring to the institutions cited in the preceding section it is evident that each institution or entity is concerned only with what the statute relevant to it requires. Public universities for example are established under appropriate Acts of Parliament, but each one is an independent entity with its own unique university charter. Activities of public universities are overseen by councils, more or less in the same way boards of directors would oversee the activities of corporate entities. Chairpersons of councils are appointed by the president while the minister responsible for higher education appoints the other members.³⁰⁶ Each council consists of different individuals and it is rare for an individual to be a member of multiple councils. There is no law compelling the council of one university to coordinate its activities with those of another university even if they may want to share experiences.

Private universities have their own objectives which may not necessarily be the same as those of public universities. Even among themselves, private universities may also have differing objectives. In an environment where the laws establishing the universities and other training institutions are not uniform, eliminating the opportunity of having a common objective, coordination becomes difficult. Furthermore there is no interaction on a sustainable basis between NBAA and the Tanzania Commission for Universities (TCU) which accredits universities in the United Republic of Tanzania, although there appears to be some interaction between the Board and the National Council for Technical Education (NACTE) which accredits the non-university tertiary education institutions.³⁰⁷ This same phenomenon applies to other non-university institutions, for example the regulatory institutions mentioned in the preceding section. Each has its objectives, and each invokes the need to have proper accounts and financial statements to suit its own interests. In this case, NBAA plays a pivotal role in ensuring that by fulfilling its responsibilities as required by the law it is also facilitating the needs of other institutions. Nevertheless, there is no evidence of coordination activities between the Board and the said institutions.

The Auditors and Accountants (Registration) Act which established the NBAA focused more on training of accountants and other matters related to development of accountants and dissemination or publicizing activities of the Board. It did not articulate itself well on the matter of coordination of different activities that impacted on the accounting profession. As a result, the Board is beset with a lack of capacity to perform many other activities including monitoring and oversight of compliance with accounting rules and regulations (World Bank, 2005). The Board, though expected to do so, does not have sufficient capacity to perform the role of coordinator of all matters concerning accounting in the country.

³⁰⁶ In the case of non-university tertiary level institution a governing board assumes the responsibilities of a council.

³⁰⁷ Based on discussions with an official of NBAA.

Coordination between the Ministry of Education and Vocational Training and professional accounting organizations

The Ministry of Education and Vocational Training is mandated for formulation, monitoring and evaluation of the implementation policies, teachers' training, registration of schools, inspection of education services and infrastructure, library services and education press services.³⁰⁸ The ministry currently plays an oversight role and has devolved day-to-day administration of schools to local government authorities. The ministry does not prepare curriculums for schools, a task entrusted to the Tanzania Institute of Education (TIE). It also does not directly deal with examinations. Examinations are the responsibility of the National Examinations Council of Tanzania (NECTA). The ministry's role for accounting education is also restricted at the policy level for both primary and secondary schools. It has little influence on accountancy education in tertiary institutions and has no influence on the curricula designed by the NBAA which is also not influenced by the TIE. The NBAA has its own professional accountancy examinations curriculum which is updated periodically. For example, the existing curriculum was last revised in 2007. This has just been revised this year, after six years, with the revised curriculum to be implemented beginning 2014. The new professional accounting syllabus is summarized in box VII.4.

Box VII.4

The revised NBAA examination syllabus¹

Foundation (Knowledge and Skills) Level:

Code Subject Name

- A1. Quantitative Techniques
- A2. Business and Management
- A3. Accounting
- A4. Business Information
- A5. Business Law

Intermediate (Skills and Analysis in Context) Level:

Code Subject Name

- B1. Financial Management
- B2. Financial Accounting
- B3. Auditing Principles and Practice
- B4. Public Finance
- B5. Performance Management
- B6. Management, Governance and Ethics

Final (Professional Analysis, Application and Evaluation) Level:

Code Subject Name

- C1. Corporate Reporting
- C2. Audit and Assurance
- C3. Business and Corporate Finance
- C4. Tax Law and Practice

³⁰⁸ United Republic of Tanzania, Ministry of Education and Vocational Training. Available from www.moe.go.tz

NBAA is supposed to influence accounting syllabi in universities and other tertiary training institutions to ensure that the university and the NBAA syllabi are harmonized. NBAA examines syllabi used by training institutions before they allow any exemptions to its professional examinations. However, NBAA does not demand syllabi on a regular basis leading to cases where an institution may revise its syllabus without notifying the Board of such revision. Otherwise there is no interaction between the Ministry of Education and the PAO, which in this case happens to be the NBAA, a parastatal under the Ministry of Finance.

Universities with different curriculums

Universities in the United Republic of Tanzania are accredited by TCU which to some extent ensures that the universities adhere to certain prescribed policies and procedures concerning structure and organization. The highpoint of accountancy training is acquisition of an accountancy professional qualification. In the United Republic of Tanzania NBAA is the sole organ legally tasked to develop the accountancy profession and conduct accountancy professional examinations. Professional accounting examinations conducted by NBAA are similar in structure to those conducted by United Kingdom professional accountancy institutions like the ACCA and CIMA due to historical reasons. Accounting curricula in universities are developed by the individual universities. There is no coordination among the universities with regard to that. However, accounting curricula in universities are considered by the NBAA to be comparable, given that graduates from universities are treated in the same way as far as exemptions to the NBAA professional examinations are concerned.

Funding and sustainability of key institutions like higher education institutions and PAOs

Public institutions of higher education are owned and operated by the Government. The universities among these institutions are governed by policy directives, especially on administrative matters, from the Ministry of Education and Vocational Training. Other institutions, though also owned by the Government, differ in terms of the exact government entity providing oversight. For example, the Institute of Finance Management (IFM) and the Tanzania Institute of Accountants (TIA) are operationally under the Ministry of Finance while the College of Business Education (CBE) is under the Ministry of Trade and Industries. Funding for these institutions comes from the Treasury (directly or indirectly) and hence sustainability is guaranteed. The fact that there are several government entities operationally involved with the public higher education institutions may pose coordination problems, but funding is guaranteed.

Private institutions of higher education source their funding from fees paid by students to the institutions and the investment made by the owners of those institutions. This exerts pressure on the institutions to provide quality tuition to students, which is costly, and to have a respectable performance track record in terms of pass rates and so on, which may conflict with the quality tuition objective. Unfortunately, most of the private institutions are new relative to public institutions. They have limitations with regard to the number of renowned members of faculty. Furthermore, fees for degree programmes at private institutions are higher than those for programmes at public institutions: private institutions need to spend more on investment in infrastructure and quality lecturers, and cannot afford to subsidize the cost of training in their institutions.

Coupled with the preference for enrolment to public universities by students³⁰⁹, these are challenges that may affect sustainability of these institutions.

NBAA is a public accounting organization funded by the Government but also through membership and examination fees, seminar fees and other internal sources including income from CPD events. NBAA is guaranteed a certain percentage of its income because it is the only organization legally mandated to oversee the accounting profession in the country. NBAA's sustainability is somewhat guaranteed as it cannot be allowed to fail or die, being the only organ overseeing the profession. For example, the latest available NBAA annual report for the year 2011/2012 shows that NBAA recorded a modest surplus (NBAA, n.d.). Institutions like the ACCA, CIMA and other professional accounting organizations are global institutions with funding at the global level. It is the Tanzania Association of Accountants, with no legal mandate on any matter concerning accounting other than those concerning it as an association, whose sustainability is really at stake. This is particularly so since its membership is voluntary with no legal or professional consequences on accountants failing to associate themselves with it.

E. Integration of international requirements in the national system

In the United Republic of Tanzania there are a number of challenges that delay integration of international requirements in the national system. The following are some worth mentioning.

Lack of sufficient knowledge of international standards and practices and difficulties in including international standards in the national ones and in the education system

Since 2004 all business entities in the United Republic of Tanzania are required to use IFRS/IAS in financial reporting, except for government business entities, which are required to use International Public Sector Accounting Standards (IPSASs). NBAA has further clarified which of those entities are now permitted to use the IFRSs as follows:

1. Publicly accountable entities are to use full IFRSs. These include entities that offer shares to the public; financial institutions like banks, insurance, pension funds, mutual funds, securities brokers/dealers; entities that have essential public responsibility or provide essential public service such as utilities; and all entities including government business entities with 100 or more employees or with capital investment in non-current assets above TSh 800 million.³¹⁰
2. Non-publicly accountable entities are permitted to use IFRS for SMEs. These include private and government business entities with less than 100 employees and capital investment of less than TSh 800 million. Such entities may, alternatively, use full IFRSs.
3. Public sector entities may use IPSASs provided they do not qualify as publicly accountable (see 1 above).

The Board directs further that entities using IFRSs or the IFRS for SMEs must apply those pronouncements as issued by the IASB in full and without modification.

Implementation of the NBAA clarification and directive above has been fraught with difficulties due to a lack of, or inadequate knowledge of international standards and practices. Even though Tanzanian accountants acquired, through NBAA, experience

³⁰⁹ Based on informal discussions with some high school graduates.

³¹⁰ Approximately US\$500,000 at current rates: US\$1 = TSh 1,600.

in setting indigenous standards³¹¹ the adoption of IFRS has proved to be a major challenge for preparation of satisfactory financial reports that meet the specified standards. A survey conducted by the NBAA in 2011 on financial statements of 80 reporting entities for the period between financial years 2009 and 2010 showed that the level of compliance in most of the reporting entities in the banking, insurance, communication and manufacturing and distribution categories was above 90 per cent, while that for entities like government agencies, water authorities and the Small and Medium sized Entities (SMEs) was below 70 per cent.³¹² Some of the reasons attributed to the relatively low compliance level were that the IFRS are complex and difficult to interpret, they are changed (too) frequently, and that the costs of compliance far exceeded the benefits. It was also suggested that there were too few professional accountants, especially those with technical competence in IFRS to allow broader compliance and inadequate capacity by NBAA and other regulators to enforce compliance.

Challenges in implementing International Education Standards

One of the challenges in implementing IES nationally is the delayed leadership in that regard on the part of the NBAA. Accountancy training for NBAA professional examinations is expected to reflect a high level of international acceptability of the curriculum and syllabus. Although the NBAA does not train accountants, it does have a syllabus that provides guidance on what the content of accounting courses in training institutions should be. Training institutions are expected to align their syllabi in line with that of NBAA.³¹³ With regard to international education standards, although NBAA is striving to accommodate the topics and subjects recommended by the IES in its syllabus in terms of coverage, the process is slow.

Another challenge is attributable to the training institutions themselves. Training institutions are not proactive in ensuring IES are addressed in their syllabi. Some training institutions do not have capacity to develop IES-compliant syllabi. It so happens that many training institutions do not revise their syllabi as often as would be desirable, the result of which many are offering outmoded syllabi to their students. The Board works closely with accountancy training institutions in the country to ensure that training in accounting is harmonized, by assessing the accounting programmes which are conducted by various accountancy training institutions in the country.³¹⁴ But the Board does so by working with each institution individually. There is no meeting that brings the institutions together with the NBAA. As a result, each of these institutions designs and offers its own accounting curricula, with each curricula individually 'approved' by the NBAA. The only coordination present is at the level of the NBAA, in those cases where students from particular institutions seek exemptions to some subject examinations of the Board. Only examinations of the technician and professional accountancy levels are set and administered by NBAA nationally. Hence, institutions are free to design curricula as they deem fit, to suit their own interests and, presumably, those of their students.

³¹¹ Tanzania Statements of Standard Accounting Practice (TSSAPs) 1, 2 and 3 and Tanzania Financial Accounting Standards (TFAS).

³¹² See "Report of the Survey on IFRSs Compliance in Tanzania", available from <http://www.nbaa-tz.org/ifrsreport.pdf>.

³¹³ Either due to the need to assure themselves of exemptions in the case of formal institutions like universities, or to retain accreditation as a trainer for professional examinations.

³¹⁴ See: NBAA. Accountancy Training Institutions. Available from <http://www.nbaa-tz.org/aci.htm>.

Despite the lack of leadership portrayed by the NBAA's, its syllabus addresses the IES requirements to a great extent.³¹⁵ It is expected that Universities/training institutions will follow suit. NBAA examines syllabi of training institutions for purposes of granting exemptions. A factor considered is alignment with the NBAA syllabus. If the two syllabi are aligned it is assumed the syllabus of the training institute is IES compliant. However, NBAA does not summon syllabi of older institutions which have already been granted exemptions. In the event of revisions to the syllabi subsequently, it is difficult to ascertain compliance to IES requirements. Ideally, NBAA should receive copies of every new syllabus designed by a training institution to determine compliance, not only with the NBAA syllabus, but with IES. This is a problem that needs to be addressed by enabling the Board financially to fulfil this obligation.

Challenges in relation to the globalization of corporate reporting, mobility, need to implement international standards, and the like

NBAA subscribes to and is a member of regional and global associations such as the PAFA, IFAC and others. NBAA recognizes the increasing importance of regional groups because they provide an opportunity for exchange of ideas and further moves towards harmonization. For example, PAFA was launched with an objective of accelerating the development of the accountancy profession in Africa and strengthening the voice of the accountancy profession within Africa and worldwide. PAFA brings together some 37 PAOs from 34 countries, building up on the Eastern, Central and Southern African Federation of Accountants (ECSAFA).³¹⁶ PAFA has resolved to adopt all standards promulgated by IFAC, including IES and the Code of Ethics for Professional Accountants. This provides an opportunity for NBAA to participate in a harmonized accounting environment and through it to learn from others. NBAA has made a commitment to abide to all its obligations to these organizations and associations, and is doing the needful to ensure that it continues to be a trustworthy member by paying the fees dues, and implementing whatever tasks which are required of it as part of the obligations.

With regard to global considerations, the position of the United Republic of Tanzania is to some extent determined by the number of professional accountants in the country. As mentioned elsewhere in this chapter, reports by the NBAA suggest a higher demand of professional accountants than are available in the country. However, there is a limited inflow of accounting expertise into the country. According to an official of the NBAA some of the relatively specialized industries³¹⁷ are given permits to recruit from outside the country for limited periods while local capacity and expertise are being developed. The foreign accountants are considered to be more competent to apply IFRS in reporting for those industries. Alternatively the opening up of the economy and the influx of foreign investment has increased the demand for qualified and versatile accountants to prepare financial reports meeting the requirements of foreign investors. For many multinationals, expatriate accountants are likely to be producing financial reports which meet the requirements of the parent organizations in the foreign country.

Liberalization of trade in services in the East African Community region

³¹⁵ Based on discussions with an official of NBAA. See also National Board of Accountants and Auditors (2007).

³¹⁶ See Pan African Federation of Accountants. Available from www.pafa.org.za/introduction/index.html. The current President of the PAFA is the current Chairman of NBAA.

³¹⁷ For example mining, oil and gas exploration.

At the local level, there is mutual respect for qualifications/certifications from the East African Community (EAC Common Market Protocol) member countries. All EAC partner States except Rwanda and Burundi, have similar historical relationship with the United Kingdom. The accounting systems in Kenya, the United Republic of Tanzania and Uganda are similar, all deriving from the Anglo Saxon system. The EAC Common Market entered into force in the year 2010 whose objective is free movement of goods, capital and labour. Pursuant to Article 23(2) of the EAC Common Market Protocol, the 5 EAC member States agreed to liberalize trade in services within the periods 2010–2015 covering Business and Professional Services subsectors among others. This means that professionals including accountants can supply services across the regional economic community with little or no limitation. Trade in services can be conducted through four modes of supply. These include cross border supply (Mode 1), consumption abroad (Mode 2), commercial presence (Mode 3) and presence of natural persons (Mode 4). In 2010, Kenya, Rwanda and the United Republic of Tanzania removed limitations on the provision of accounting services across their borders in all modes of supply within the limits set by the Annex on Free Movement of Persons.³¹⁸ Burundi and Uganda have retained some limitations to be eliminated by 2015. In its schedule of commitments the United Republic of Tanzania has liberalized the provision of accounting and auditing services for the three of the four modes of supply. The country has prescribed limitations on the cross border supply of accounting and auditing services. This means that the State negotiated to have the freedom to implement measures that curtail on the freedom to supply cross border accounting services. However as a community, member countries are obliged to recognize professional qualifications from member countries. Despite the minor restrictions stated in the United Republic of Tanzania's schedule of commitments, generally accountants from Kenya, the United Republic of Tanzania and Uganda can operate in any of the three countries. As an EAC partner, Rwanda's PAO is an up and coming organization that is likely to benefit from mutual recognition of qualifications. Rwanda has shown keen interest to develop its accountancy profession modelled on the three other EAC member States. The position of Burundi is still uncertain.

Shortage of professional accountants and auditors

According to various reports of the NBAA a shortage of accounting technicians and professionals is portrayed to be a problem facing the profession in the United Republic of Tanzania. This shortage affects almost all entities, both public and non-public. However, evidence of a formal study being commissioned to undertake a study to establish the actual demand and supply of accounting personnel in the United Republic of Tanzania is elusive.³¹⁹ There are numbers available on what constitutes the shortage position although their accuracy has not been scientifically verified. For example, according to NBAA the demand for Certified Public Accountants in the United Republic of Tanzania as of June 2011 stood at 6,000 whereas the supply stood at 3,700, implying a shortage of some 2,300 CPAs. NBAA further states that out of the 3,700 CPAs, 3,422 have been certified by NBAA, while the remaining 278 possess equivalent accreditation from foreign institutions (*The Daily News*, 2011).³²⁰ However, a list of active members recognized by the NBAA as from March 2013 shows that there

³¹⁸ Annex V of the EAC Common Market Protocol

³¹⁹ According to the World Bank (2005:9) the NBAA commissioned ACCA in 1999 to undertake the study "The status of Accounting and Auditing functions in Tanzania and Harmonization with International and Regional Standards" whose main objective was to review existing statistics to establish the demand and supply of accounting personnel in both private and public sectors. Efforts to access this report have been unsuccessful.

³²⁰ The source reports that there are about 330 auditors and 140 auditing firms in the country.

are 3,804 professionals registered with the Board, in the categories as shown in table VII.3.³²¹

Table VII.3

Registration categories of active members recognized by NBAA

Registration category	Number	Percentage
Approved Accountant	306	8.0
Associate Certified Public Accountant (ACPA)	759	20.0
Fellow Certified Public Accountant (FCPA)	118	3.1
Associate Certified Public Accountant in Public Practice (ACPA-PP)	272	7.2
Fellow Certified Public Accountant in public Practice (FCPA-PP)	131	3.4
Temporary Certified Public Accountant (TACPA)	145	3.8
Temporary Certified Public Accountant in Public Practice (TACPA)	35	0.9
Graduate Accountant (GA)	2 038	53.6
Total	3 804	100

Source: National Board of Accountants and Auditors (2013a).

Table VII.3 shows that among the registered professional accountants³²² 438, or 11.5 per cent, are registered as auditors, 180 professional accountants, or 4.7 per cent, are expatriates, and the majority, at 53.6 per cent, is in the Graduate Accountant category.

Accounting manpower created by the Board up to November 2012

One of the functions of the Board as delineated in the Act establishing it is to promote and provide opportunities and facilities for the study of, and for the training in, accountancy, auditing and allied subjects. By implication NBAA is also tasked with increasing the number of professional accountants in the country. In an effort to meet the overwhelming demand for highly qualified accounting personnel in the country, NBAA has been able to create cumulatively 17,949 accounting professionals since its inception in May 1975. These qualified accounting personnel created are categorized in groups as indicated in table VII.4.

³²¹ National Board of Accountants and Auditors (2013a).

³²² Approved Accountants are not professionals *per se* since they do not possess the CPA (T) or any equivalent certificate.

Table VII.4
Accounting personnel created since inception of NBAA as of November 2013

No.	Qualification	Number
1.	Certified Public Accountant (CPA)	4 323
2.	National Accountancy Diploma (NAD)*	1 537
3.	National Book-keeping Certificate (NABOCE)*	5 746
4.	Basic Book-keeping Certificate (BBC)**	2 971
5.	Accounting Technician Certificate (ATEC)	3 372
	Total	17 949

* Phased out in November 1991.

** Phased out in November 1990.

Source: National Board of Accountants and Auditors (2012a).

The number of personnel shown in table VII.4 is not static. Over the years, many of those who had qualified at lower levels have upgraded their qualifications to, for example, certified public accountant. In the real sense, when it comes to counting the number of personnel available there is a substantial double counting because many of the former NAD holders and some of the NABOCE holders have since qualified as CPAs. The statistics above refer only to the output from the accountancy examination scheme of the NBAA. So with regard to double counting, for example, an individual could have been counted among the NAD graduates and later counted among the CPA graduates.

The statistics are associated with the supply of accountants from the NBAA stream. Those who qualified in different, foreign systems are not included. Hence, it is interesting and thought provoking when it is said that the supply of professional accountants stands at 3,700 accountants only. There is a strong possibility that some professional accountants have not registered with the Board. Table VII.4 shows that 4,323 CPAs have been produced as of end of the year 2012. Table VII.3, on the other hand, shows that there are 3,498 professionally qualified accountants³²³ as of first quarter of 2013. The difference of 825 professionally qualified accountants is unexplained and could be the number of professional accountants who do not appear on the NBAA register. The figure is actually larger considering the fact that those registered include professionals who hold foreign qualifications. Section 23 of the Auditors and Accountants (Registration) Act, 1972, as amended, forbids any person or organization from employing as an auditor or accountant a person who is not registered with the Board, and likewise forbids individuals from accepting employment as auditor or accountant if they are not registered with NBAA.³²⁴ The problem, however, is that enforcing the law in this regard is a challenge to NBAA.

Difficulties in determining the number of accountants and therefore assessing the gap

Determining the demand and supply of accountants in a growing economy like the United Republic of Tanzania will provide a basis of assessing performance of the professional accounting organization, in this case NBAA, in terms of producing an adequate number of accountants to serve the economy. Unfortunately no scientific study

³²³ Excluding the approved accountants.

³²⁴ Registration in the appropriate category as CPA-PP, CPA or Graduate Accountant.

has been conducted to establish the same. Figures used by NBAA on demand and supply of accountants should be interpreted with caution.

Apparently the focus of the Board is on the number of accountants produced by it. Hence statistics on demand and supply of accountants in the country are obtained after determining the state of the economy, based on economic indicators, and inferring as to the number of accountants that would be required to service the economy. This number is then compared with the cumulative number of graduates through the NBAA examinations and perhaps the register of members. The possibility that some qualified accountants have not registered with the Board increases the problem associated with determining the actual demand and supply of accountants in the United Republic of Tanzania. It is reported however that accounting professionals registered a dynamic growth during the period 2004 and 2009, when the average annual growth rates in the number of accounting professionals in the United Republic of Tanzania reached almost 30 per cent (World Bank, 2010). These statistics need to be translated into viable input for determination of the demand and supply of accountants in the United Republic of Tanzania. It is apparent that lack of funds is a major factor behind the inability of the Board to conduct a scientific study on the matter.³²⁵ To conduct a systematic country-wide study as would be required in this case would entail substantial funding that is beyond the Board's endowment.

Incentives for retaining professional accountants and auditors in the country

A study by the World Bank (2010) considered two aspects of incentives to professionals in East Africa. These are incentives to acquire professional qualifications and skills, and incentives to work as professionals within the region. On incentives to acquire professional qualifications, the study compared professional wages with wages of skilled workers with a similar level of education to estimate the "education premium" for professional workers, i.e. the added value of entering a profession. The study found that, in the United Republic of Tanzania, there was a premium in acquiring a professional qualification over the wages of those with university degrees only. With regard to incentives to work as professionals in the region the study analysed emigration rates of, among others, tertiary-level graduates.³²⁶ The study found that emigration rates for Tanzanian professionals were far lower compared to those of their East African neighbours.

The findings of the World Bank study inform us that, for the United Republic of Tanzania, there are incentives not only to study for an accountancy professional qualification but also to work in the country. However, this does not mean that accountants are completely satisfied with their status. Much as they could be paid relatively higher than non-professionals in accounting, they are not aloof to the cries by other workers that salaries are inadequate.³²⁷ Likewise, accountants may be motivated to work in the country but they may dislike certain types of organizations in favour of others. Some studies have suggested that the private sector offer better work experiences to professionals in terms of realization of professional work expectations, job characteristics, job satisfaction, internal work motivation, turnover intentions, and career facilitation (e.g. Aryee, 1992). The public sector had always been considered unfavourable when it comes to the basic remuneration it pays to employees (McDevitt, 2010). With enhancements in remuneration packages as part of the public service reform programme employees (United Republic of Tanzania, 2010), including

³²⁵ According to an official of the Board interviewed on 28th June 2013.

³²⁶ Including professionals.

³²⁷ This appears to be more of a concern to employed accounting professionals than the professional accountants in public practice.

accountants, now find that sector as better compared to the private sector, considering also other variables like job security and other non-formal benefits obtained on the job or using the job.

Another factor behind the relative retention of accountants in the country is the small number of employment opportunities available to professional accountants outside the country. Other than the East African States, Tanzanian professionals have often looked at the other SADC countries of Botswana, Namibia and South Africa for employment. It turns out that even Botswana has a larger per capita ratio of accountants compared to the United Republic of Tanzania.³²⁸ Hence, those two countries would probably not be very receptive to accountants from another country.

How successful PAOs have been in implementing the IFAC Code of Ethics

In the United Republic of Tanzania the PAO is the NBAA. According to the World Bank (2005:9) the NBAA has made a significant contribution to accountancy development in the United Republic of Tanzania over the years putting in place a workable professional framework, and its examination process and administration is exemplary. Prior to adopting IFRS/IAS the NBAA had its own accounting and auditing standards, and it is assumed that it has gained significant experience in that regard.

With regard to the IFAC Code of Ethics, as mentioned in an earlier section in this document, NBAA has by-laws that include a Code of Ethics. NBAA is enforcing the Code of Ethics in the by-laws, and can be considered to have recorded success in implementing, indirectly, the IFAC Code of Ethics. The Code of Ethics as prescribed in the by-laws has preference to the IFAC Code of Ethics with regard to accounting and auditing practice in the United Republic of Tanzania but, as stated earlier, there is little difference between the two. Hence, full compliance to the NBAA Code of Ethics would lead to substantial compliance to the IFAC Code of Ethics.³²⁹

Language as a barrier to understanding and efficiently implementing standards, and participating in the standards setting process

The United Republic of Tanzania is officially a bilingual nation with both Kiswahili and English as the official languages. According to the University Press of Africa (1968) both languages are widely spoken and understood throughout the country, but Kiswahili is regarded as the *lingua franca* as it is more widely understood and used, especially upcountry. The primary education system uses Kiswahili as the medium of instruction, especially in government-owned schools.³³⁰ English is the medium of instruction in secondary and post-secondary schools and institutions. According to Anna Rabin (2011) the transition from Kiswahili to English as the medium of instruction significantly diminishes the quality of the United Republic of Tanzania's education system. The transition is detrimental to both the students' ability to learn, and in many cases the teacher's ability to teach, and the current lack of native English speakers as teachers is a hindrance to English language teaching.

³²⁸ The numbers of professional accountants per 100,000 people are given as 48 for South Africa, 37.4 for Botswana and 7.7 for Tanzania (World Bank, 2010).

³²⁹ The following are not addressed by the NBAA Code of Ethics: Professional Appointment, Second Opinions, and Gifts and Hospitality. Financial Interests is considered with regard to professional accountants in public practice under this Code.

³³⁰ A number of privately-owned schools use English as the medium of instruction.

The above factor impacts on accounting in the United Republic of Tanzania in several ways. For the few students able to continue with secondary education they have a relatively short period of time to acquire proficiency in the language. Proficiency attained is inversely proportional to the stage at which the students drop from school. For those unable to continue with post-secondary education their level of proficiency will be small compared to those who continue with post-secondary and tertiary education. But even for those attaining university degrees, it is argued that inadequacies in English language teaching are often unable to be rectified by the time students reach university and English language is still a major challenge to many of the university students because of their background at lower levels of school (Rabin, 2011).

It was stated in an earlier section that an individual could enter the NBAA professional examination scheme even without a university degree, starting at the lower levels of ATEC I and ATEC II. If such a person eventually completed the CPA examinations, it is very likely that such a person's level of English comprehension would be lesser than one who has a university degree background who has also completed the CPA examinations. Even though no research has been conducted in this regard, it can be assumed that there would be a marked difference in the level of understanding and ability to implement standards between the two individuals. If what is suggested by Rabin (2011), that even university graduates still have a problem with English, is correct than it does imply that local accountants may have a problem in understanding and efficiently implementing standards.³³¹

With regard to the standard setting process Tanzanian accountants, through NBAA, have experience in setting accounting standards that were used before adoption of IFRS/IAS.³³² Hence standards setting may not necessarily be a challenge. The challenge may be with regard to participation in the process, regardless of whether the standards are local or otherwise. Most standards commence with an exposure draft which is circulated among stakeholders within the accounting fraternity to elicit comments. According to an official of the NBAA³³³ few professional accountants in the United Republic of Tanzania actually comment on such drafts. It is the accounting/auditing firms, especially the "big four", who are particularly active in such endeavours.

F. Other participants in the supply chain

Other participants in the supply chain in the United Republic of Tanzania include various regulators like Bank of Tanzania (BOT), Tanzania Revenue Authority (TRA), Capital Markets and Securities Authority (CMSA), Registrar of Companies, etc. Also included are members of boards of directors, government leaders, and the like. These are people or institutions that are expected to be among the principal recipients of financial reports of entities. An examination of the statutes governing these institutions suggests that financial accounting information is one of the major ingredients for the fulfilment of their responsibilities. A concern arises that they too may not have the requisite knowledge to fully comprehend IFRS-compliant reports.

There is a need to provide training to members of the institutions using financial reports. For example training could be provided to financial managers and

³³¹ The younger professionals are the ones more affected as it seems the language problem has been increasing over the years. Older accountants could be better off in their mastery of the English language, i.e. those who were taught English by teachers "drawn from other Commonwealth countries" (Juma Mwapachu, quoted in Rabin [2011]).

³³² See Note 45.

³³³ Interviewed on 28th June 2013.

perhaps the heads of regulatory institutions. Likewise, training could be provided to members of respective boards of directors to enhance their supervisory roles vis-à-vis the institutions. Unfortunately no formal training is being organized by NBAA for regulators or directors likewise due to lack of funds. NBAA does conduct regular training on pertinent matters, and has spent quite some time training on IFRS. For some reason NBAA has failed to attract regulators and directors to the training. Alternatively other training institutions like universities could provide the training. There is no evidence of such training having been organized by universities or any other training institution. This is actually an opportunity for training institutions to have an impact on key institutions in the country through the institutions' management.

G. Capacity-building requirements

Examining the status of accounting in the country, particularly as it pertains to CPAs and managers of financial report user institutions, it is apparent that further training is required in all the standards promulgated by the IASB and IFAC which have been adopted for use in the country. These include IFRS, IFRS for SMEs, IPSAS, ISAs, and IES. It has proved somewhat difficult for members of the profession to fully understand the standards to be able to properly apply them in practice. Further concerted training should eventually enable the practitioners to prepare financial reports that are compliant with the requisite standards.

Training is also required for management and directors of regulatory institution like the SSRA, and for directors and shareholders of other non-regulatory entities. It is important that those holding important decision making positions should understand the basics of financial reporting using international standards in order for them to execute their functions effectively. Auditors can assist the directors and shareholders by ensuring the financial statements are correctly prepared, but the statements would still need to be interpreted.

To be considered is whether there should be new certification programmes for other participants in the corporate reporting supply chain (for example Institute of Directors). There is no doubt that training is required for members of the Institute of Directors – Tanzania (IODT).³³⁴ However, it is not necessary that it is accompanied by a certificate. With regard to IES, it has been suggested that there is no coordination in the designing of training institution syllabi and that only NBAA can perhaps confidently claim having a syllabus that has accommodated some of the IES requirements. There is a need to determine the main cause for not designing training institution syllabi according to IES. If need be, training should be provided to training institutions to enable them to develop IES-compliant syllabi, although lack of training *per se* may not be the real problem.

International cooperation: twinning exercises, technical assistance to other countries

Country PAOs stand to gain a lot from international cooperation and twinning exercises, particularly countries with a nascent PAO. Twinning may be particularly beneficial when the twinning partners differ in the extent to which the PAOs have developed. The benefit arises by the less developed PAO learning and benefitting from the developed PAO. At the moment the United Republic of Tanzania does not have any twinning arrangement with any foreign PAO.

³³⁴ There is currently no training whatsoever provided exclusively to members of the institute.

H. Lessons learned, conclusions and outlook

NBAA has made fairly significant strides in developing the accounting profession in the country. This is in spite of the many challenges that it faces as a regulatory body as well as a professional accountancy organization. The main challenge is a lack of adequate funds to enable it to fully perform its responsibilities as specified in the Act establishing it. It is clear NBAA is inundated with responsibilities and may have overstretched itself in the quest to accomplish its objectives.

The adoption of IFRS and other international standards has brought with it implementation challenges with accountants having difficulties to fully comprehend them. Further training is required to enable the accountants to fully understand how to apply those standards in the preparation of financial reports. Training is also required for regulators and members of boards of directors. These are the ones who are expected to make use of the financial reports and therefore they should be enabled to be able to interpret information constituting the reports. Tertiary level training institutions should familiarize themselves with the IES and should be assisted in preparing accountancy syllabi that accommodate requirements stipulated in the IES.

There is a need to put in place a coordination mechanism for all entities that have a stake in accounting. Such coordination is currently lacking. NBAA should be provided with all the support necessary, be it financially, materially and/or through legal provisions, to enable it to take up its responsibilities for coordination of accounting in the country. This will enable them to achieve most of their responsibilities as stipulated in the Act. It will also enable them to avoid the pitfalls facing the Tanzania Association of Accountants (TAA), which is incapacitated because of the lack of legal backing, the fact that it does not run any examination scheme, and also due to capacity constraints caused by a lack of interest by the majority of accountants.

Annex VII.1. Companies listed on the Dar es Salaam Stock Exchange

SN.	Company	Date listed	No. of issued shares	Nature of business
1.	TOL Gases Ltd. (TOL)	15 April, 1998	37 223 686	Production and distribution of industrial gases, welding equipment, medical gases, etc.
2.	Tanzania Breweries Ltd. (TBL)	9 September, 1998	294 928 463	Production, marketing and distribution of malt beer in the United Republic of Tanzania
3.	TATEPA Ltd. (TATEPA)	17 December, 1999	17 857 165	Production of tea and avocado and packed tea
4.	Tanzania Cigarette Co. Ltd. (TCC)	16 November, 2000	100 000 000	Manufacturing, marketing, distribution and sale of cigarettes
5.	Tanga Cement Co. Ltd. (SIMBA)	26 September, 2002	63 671 045	Production, sale and marketing of cement
6.	Swissport Tanzania Ltd. (SWISSPORT)	26 September, 2003	36 000 000	Airports handling of passengers and cargo
7.	Tanzania Portland Cement Co. Ltd. (TWIGA)	29 September, 2006	179 923 100	Production, sale and marketing of cement
8.	DCB Commercial Bank Plc (DCB)	16 September, 2008	32 393 236	Commercial bank
9.	National Microfinance Bank Plc (NMB)	6 November 2008	500 000 000	Commercial bank
10.	CRDB Bank Plc (CRDB)	17 June 2009	2 176 532 160	Commercial bank
11.	Precision Air Services Plc (PAL)	21 December 2011	193 856 750	Air transport services
12.	Kenya Airways Ltd. (KA)	1 October, 2004	461 615 484	Passengers and cargo transportation to different destinations in the world
13.	East African Breweries Ltd. (EABL)	29 June, 2005	658 978 630	Holding company in various companies that are involved in production, marketing and distribution of malt beer in Kenya, Uganda and Mauritius
14.	Jubilee Holdings Ltd. (JHL)	20 December, 2006	36 000 000	Holding company in several companies that are involved in insurance businesses in Kenya, Uganda and the United Republic of Tanzania
15.	Kenya Commercial Bank Ltd (KCB)	17 December 2008	2 217 777 777	Commercial bank
16.	National Media Group Plc (NMG)	21 February 2011	157 118 572	News Media Group
17.	African Barrick Gold Plc (ABG)	7 December, 2011	410 085 499	Mining and production of gold

NB: The first eleven are domestic companies. Nos. 12 to 17 are cross-listed foreign companies.

Source: Dar es Salaam Stock Exchange – listed companies.

Annex VII.2. NBAA revised CPD calendar for the year 2013 (April–December)

THEME AND TOPICS	DATE	AWARD (CPD Hours)
1. Seminar on effective procurement management and construction contracts (IAS 11 and IPSAS 11) (i) IPSAS 11 – Construction Contracts (ii) IAS 11 – Construction Contracts (iii) Effective Procurement and Contracts Management (iv) An Overview of the Public Procurement Act (2004) and Regulations 2005 (v) Leading Excellence in Procurement and Supply Management (vi) Audit of the Procurement Process	11 th and 12 th April, 2013	16
2. Seminar on IFRS updates and ethics (i) Current Projects of the IASB (ii) IAS 32 Financial Instruments – Presentation (iii) IAS 39 Financial Instruments Recognition and Measurements (iv) IAS 18 – Revenue Recognition (including the treatment of non-Financial Assets) (v) Financial Instruments (IFRS 9) – Classification, Measurements and Impairment (vi) Financial Instruments (IFRS 9) – Hedge Accounting (vii) Professional Code of Ethics	19 th and 20 th April, 2013	16
3. Seminar on Leasing – IAS 17	27 th April, 2013	8
4. IFRS and IPSAS Seminar (i) IAS 1 and IPSAS 1 (ii) IFRS Updates (iii) IPSAS Updates	4 th May, 2013	8
5. Seminar on IFRS and assets management	9 th – 11 th May, 2013 (Three Days)	24
6. African Congress of Accountants (ACOA)	14 th – 18 th May 2013	24
7. NBAA/BOT joint seminar on capital markets and money laundering	29 th – 31 st May 2013 (3 days)	24
8. Seminar on effective audit and assurance services (i) Governance Risk and Compliance (ii) Entity Risk Management (ERM) (iii) Risk Based Operational Auditing (RBOA) (iv) Forensic Auditing (v) Auditing Governance, Ethics and Human Resources (vi) Value For Money and Performance Auditing (vii) Auditing e-banking (viii) Auditing of Related Party Transactions	19 th – 21 st June, 2013 Four Days	24
9. NBAA/TRA Joint Forum on Tax, Budget and Economic Issues (Including discussions on the Accountancy Profession Proposals for 2014/2015 Government Budget)	6 th July, 2013	8
10. Seminar on auditing and risk management	12 th and 13 th July, 2013	16
11. Seminar for semi-professionals (i) IFRS No. 10 – Consolidated of Financial Statements (ii) Public Sector Accounting Standards – Overview	19 th and 20 th July, 2013	16
12. IFRS Seminar – Including Updates on New Standards	1 st and 2 nd August, 2013	16
13. International public sector accounting standards seminar (including updates on New IPSAS)	15 th and 16 th August, 2013	16
14. Cost and Management Accounting Seminar	5 th and 6 th September, 2013	16

15. IFRS and IPSAS updates	26 th and 27 th September, 2013	16
16. International public accounting standards seminar (i) IPSAS No. 1 Presentation of Financial Statements (ii) IPSAS No. 2 Cash flow Statements (iii) IPSAS No. 5 Borrowing Costs (iv) IPSAS No.18 Segment Reporting	18 th and 19 th October, 2013	16

Annex VII.3. Institutions providing training at the professional level

SN.	Name of institution	Registration number	Modules
1.	APT Financial Consultants, Dar es Salaam	NBAA/TPRS/005	Module E - F
2.	Fin Biz, Professional Training Centre, Dar es Salaam	NBAA/TPRC/010	Module E - F
3.	Institute of Tax Administration (ITA), Dar es Salaam**	NBAA/TPRS/018	Module E - F
4.	Accountant General, Ministry of Finance, Dar es Salaam**	NBAA/TPRS/039	Module E - F
5.	First Contact Institute of Business Administration and Information Technology, Morogoro	NBAA/TPRS/042	Module E - F
6.	The Perfect Future Consultants Ltd, Dar es Salaam	NBAA/TPRS/066	Module E - F
7.	Institute of Finance Management (IFM Weekend College), Dar es Salaam**	NBAA/TPRS/001	Module A - F*
8.	Tanzania Institute of Accountancy (TIA), Dar es Salaam**	NBAA/TPRS/002	Module A - F*
9.	College of Business Education, Dar es Salaam**	NBAA/TPRS/004	Module A - F*
10.	Institute of Accountancy Arusha, Arusha**	NBAA/TPRS/006	Module A - F*
11.	Business Finance Consultants, Dar es Salaam	NBAA/TPRS/007	Module A - F
12.	KAS Informatics, Dar es Salaam	NBAA/TPRS/009	Module A - F*
13.	Chuo Cha Uchumi Zanzibar, Zanzibar	NBAA/TPRS/011	Module A - F*
14.	Tanzania Institute of Accountancy, Mbeya**	NBAA/TPRS/015	Module A - F*
15.	Financial Training Centre, Dar es Salaam	NBAA/TPRS/016	Module A - F
16.	BOT Training Institute, Mwanza**	NBAA/TPRS/019	Module A - F*
17.	Zanzibar Institute of Financial Administration, Zanzibar	NBAA/TPRS/021	Module A - F*
18.	Moshi University College of Cooperative and Business Studies (MUCCoBS), Moshi**	NBAA/TPRS/024	Module A - F*
19.	Evin School of Management, Dar es Salaam	NBAA/TPRS/026	Module A - F*
20.	Delve Business Consultants Co. Ltd, Dar es Salaam	NBAA/TPRS/028	Module A - F*
21.	Tumaini University College, Iringa	NBAA/TPRS/029	Module A - F*
22.	College of Business Education, Mwanza**	NBAA/TPRS/033	Module A - F*
23.	Talent Business Enterprises Ltd, Mbeya	NBAA/TPRS/034	Module A - F*
24.	St. Augustine University of Tanzania, Mwanza	NBAA/TPRS/036	Module A - F*
25.	Chabegan Associates, Dar es Salaam	NBAA/TPRS/037	Module A - F*
26.	PAC Arusha, Arusha	NBAA/TPRS/038	Module A - F*
27.	Excel Financial and Tax Foundation, Moshi	NBAA/TPRS/040	Module A - F*
28.	Extreme Solutions Ltd, Dar es Salaam	NBAA/TPRS/044	Module A - F*
29.	D & E Business and Financial Consultants, Dar es Salaam	NBAA/TPRS/047	Module A - F*
30.	Tanzania Labour College, Mbeya	NBAA/TPRS/048	Module A - F*
31.	St. John's University of Tanzania, Dodoma	NBAA/TPRS/049	Module A - F*
32.	Institute of Sales Promotion, Dar es Salaam	NBAA/TPRS/050	Module A - F*
33.	Western Tanganyika College, Kigoma	NBAA/TPRS/051	Module A - F*
34.	Covenant Financial Consultants, Dar es Salaam	NBAA/TPRS/052	Module A - F
35.	Beta Business Consultants, Dar es Salaam	NBAA/TPRS/053	Module A - F*
36.	A3 Institute of Professional Studies, Dar es Salaam	NBAA/TPRS/054	Module A - F*

37.	Inspire Consultants Ltd, Dar es Salaam	NBAA/TPRS/055	Module A - F*
38.	Ruter Business and Management Services, Mwanza	NBAA/TPRS/056	Module A - F*
39.	MMK Consulting and Professional, Dodoma	NBAA/TPRS/057	Module A - F*
40.	Centre for Practical Development Training, Arusha	NBAA/TPRS/058	Module A - F*
41.	Perfect Trainers and Business Consultants, Songea	NBAA/TPRS/059	Module A - F*
42.	Goodwill Financial Consultants, Dar es Salaam	NBAA/TPRS/060	Module A - F*
43.	Zanzibar Commercial Institute Ltd, Zanzibar	NBAA/TPRS/061	Module A - F*
44.	Zanzibar Intellectual and Business Consultants (ZIBCO), Zanzibar	NBAA/TPRS/062	Module A - F*
45.	Rosewell Training Centre, Dar es Salaam	NBAA/TPRS/063	Module A - F*
46.	Attitude Financial Consultants, Mwanza	NBAA/TPRS/064	Module A - F*
47.	Commercial College of Arusha, Arusha	NBAA/TPRS/003	Module A - D*
48.	St. Joseph Commercial School, Tanga	NBAA/TPRS/012	Module A - D*
49.	Business Horizon Consultants, Arusha	NBAA/TPRS/041	Module A - D*

* Also provide training at ATEC I and II. The Covenant College located at Kimara King'ong'o in Dar es Salaam provides training for the ATEC I and II levels only.

** Public institution/ministry.

Source: National Board of Accountants and Auditors. List of accountancy tuition providers recognized by NBAA.

Annex VII.4. TAA Code of Best Practice

1. All members must exercise due care in carrying out their work.
2. No work must be undertaken which is clearly beyond the competence of the member.
3. All members should plan their work.
4. All members should have an adequate system of administration for the work they undertake.
5. The terms of reference for any work should be agreed before the work commences, and members should adhere to those terms.
6. The level of remuneration for any work undertaken should be agreed between the parties before the work is undertaken. The Institute is not involved in the setting of fees. The fees are normally agreed between the member and his client as part of an engagement letter.
7. Any member who holds funds or property belonging to a third party must keep such funds or property clearly distinct from their own property and handle it with the same care as if it were their own.
8. No member should accept work where there is a conflict of interest unless all parties are aware of that conflict and have agreed that the work can be undertaken.
9. Provision should be made as appropriate for continuity of service in the event of the member being incapacitated by illness, or in the event of death of the member.
10. Where a member becomes aware that a third party with whom he has a contractual relationship is acting in breach of the law, they must ensure that they comply with item 1 in the Framework for Regulation.
11. Any member advertising services should comply with the standards laid down by the Advertising Standards Authority (in the United Kingdom), or any similar regulations applicable in their country of residence, or in the country where the advertisement is placed.
12. In order to comply with item 2 (above) members should ensure that they remain competent by undertaking the necessary continuing professional development and continuing professional education each year.
13. Practicing members must issue terms of engagement (usually an Engagement Letter) to clients at the commencement of their engagement.
14. Members in practice must note and act on their need for Professional Indemnity Insurance (PII); this is compulsory for those holding a Practising Certificate or Certificate of Compliance.

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Acronyms

ACCA	Association of Chartered Certified Accountants
ACPA	Associate Certified Public Accountant
ACSEE	Advanced Certificate of Secondary Education Examinations
AT	Accounting Technician
ATEC	Accounting Technician Certificate
BBC	Basic Bookkeeping Certificate
BOT	Bank of Tanzania
CBE	College of Business Education
CIMA	Chartered Institute of Management Accountants
CMSA	Capital Markets and Securities Authority
CPA (T)	Certified Public Accountant (the United Republic of Tanzania)
CPA-PP	Certified Public Accountant in Public Practice
CPD	continuing professional development
CSEE	Certificate of Secondary Education Examinations
DSE	Dar es Salaam Stock Exchange
EAC	East African Community
ECSAFA	Eastern, Central and Southern African Federation of Accountants
FCPA	Fellow Certified Public Accountant
GA	Graduate Accountant
GDP	Gross Domestic Product
IAASB	International Auditing and Assurance Standards Board
IAS	International Accounting Standards
IASB	International Accounting Standards Board
ICAEW	Institute of Chartered Accountants of England and Wales
IES	International Education Standards
IFAC	International Federation of Accountants
IFM	Institute of Finance Management
IFRS	International Financial Reporting Standards
IODT	Institute of Directors – the United Republic of Tanzania
IPSAS	International Public Sector Accounting Standards
ISA	International Standards on Auditing
NABE	National Business Examinations
NABOCE	National Bookkeeping Certificate
NACTE	National Council for Technical Education
NAD	National Accountancy Diploma
NBAA	National Board of Accountants and Auditors
NBS	National Bureau of Statistics
NECTA	National Examinations Council of Tanzania
PAFA	Pan-African Federation of Accountants
PAO	professional accounting organization
SADC	Southern African Development Community
SAUT	Saint Augustine University of Tanzania
SME	Small and Medium Enterprises
SSRA	Social Security Regulatory Authority
TAA	Tanzania Association of Accountants
TACPA	Temporary Certified Public Accountant
TFAS	Tanzania Financial Accounting Standards
TIA	Tanzania Institute of Accountancy
TIE	Tanzania Institute of Education
TIRA	Tanzania Insurance Regulatory Authority
TRA	Tanzania Revenue Authority

TSSAP	Tanzania Statements of Standard Accounting Practice
TCU	Tanzania Commission for Universities
TSh	Tanzania shilling
UNIDO	United Nations Industrial Development Organization

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