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Standards of Accounting and Reporting
(ISAR)**

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**Agenda item 4. Review of practical implementation of
international standards of accounting and reporting in the
private and public sectors**

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Capacity-building in Accounting Financial Reporting

A consideration of issues in the Private and Public Sector

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Focus

Accounting and Financial Reporting Capacity-building- Privat and Public sectors

- Legal and Regulatory
- Institutional
- Human capacity

Closing thoughts on future capacity building that integrates financial skills with ESG reporting –auditing skills

Legal and Regulatory

Private sector

- Implementation of IFRS requires considerable preparation at the national level to ensure **clarity on the authority of IFRS** with regard to other existing national laws and standards
- The roles and responsibilities of authorities responsible for regulating general purpose financial reporting need to be **clearly articulated** to avoid overlaps with other regulators such as prudential authorities responsible for banking and insurance.
- Take note that IFRS implementation is often accompanied by the adoption of international standards on auditing (ISA)
- Applicable reporting and audit regimes for **small and medium-sized enterprises** and **microenterprises** need to be specified.

Country Case Example

The reality of a medium-sized enterprise differs markedly from that of a small or micro enterprise. In regards to capacity building this is an important consideration

- Looking at the country case of Brazil as an example, who as of 2023, will have the following sets of standards in effect based on company size:
 - large enterprises and medium-sized enterprises: IFRS
 - small enterprises: a separate standard;
 - microenterprises: a separate standard.
- The two latter standards are **aligned with IFRS** for small and medium-sized enterprises, with **some simplifications** developed in consideration of the characteristics of these companies and of limitations in the availability of financial resources for administrative activities

Legal and Regulatory

Private sector

- General purpose financial statements and prudential/regulatory reporting need to be distinguished clearly in regulations
- Consideration should be given to **rationalizing the audit threshold** to avoid an unnecessary burden for SMEs and micro-entities
- A digital filing system with legal enforcement should be established for enterprises to submit annual financial statements to authorities
- Code of Corporate Governance should be issued and laws and regulations updated to ensure its effective enforcement for PIEs
- Systematic collaboration between sector regulators and external auditors should be established.
- Regulators' monitoring of general purpose annual financial statements should include reviewing them against applicable financial reporting standards
- Audit oversight and quality assurance

Legal and Regulatory Public sector

- IPSAS implementation requires stakeholder and political support at the highest levels.
- The development and enactment of a **primary law on public sector accounting** is recommended.
 - Delays in updating legal and regulatory frameworks could compromise the overall timeliness of reforms

Institutional Private sector

- Effective IFRS implementation and enforcement requires legally recognized and adequately staffed and funded institutions
- A recent study found that the lack of institutional capacities was considered the greatest obstacle to IFRS implementation;
 - For example, a number of countries had a recognized accounting body, yet some did not have the requisite legal backing to regulate the accounting profession.

Institutional Public sector

- A legal framework for public sector financial accounting and reporting is required
- Defining on the placement Formal public sector accounting standards (cf. for example strategy on how to adopt IPSAS)
- Define the precise composition of public sector entities in the national context. This needs to be resolved along with planned steps for consolidation of financial statements

Human capacity

Private sector

- Current gaps in capacity of professional accountants in both the corporate and public sectors, a well-developed, properly monitored, and legally enforced **national competency framework for different types of accountants is a high priority**
- IFRS implementation requires accounting bodies to ensure that accountants are well trained and updated on the standards. Findings from recent applications of the *Accounting Development Tool* show that this is a challenging area. **The lack of competent individuals in the accounting profession creates obstacles to IFRS implementation.** In some cases, requirements are lacking for the certification and licencing of auditors. **Accountants need continuous education** and training in financial reporting in accordance with IFRS and enforcement authorities need to be competent in IFRS to effectively carry out their duties
- **The importance of IFRS education among small and medium-sized enterprises**
- **Higher-education training on IFRS can be deficient or lacking. Collaboration with universities**

Human capacity

Public sector

- Consider professional education and qualification for public sector finance and accounting
- Consider public sector accounting education at higher education institutions
- Consider professional body for public sector finance professionals
- Ensure that the code of ethics for accountants in the public sector is actively engaged

Human Capacity building and Gender

An important aspect of Human capacity building is the consideration and strengthening of gender equality and relevant policy practices

Example: In my country of practice – Denmark- this is an issue on the agenda. Only approximately 20% of our authorised auditors are women. Currently engaging with research in this area

Integration of financial and non-financial capacity building

Emerging requirements within the EU - CSRD

- EU Member States shall ensure that statutory auditors approved before 1 January 2023 acquire the necessary knowledge in sustainability reporting and the assurance of sustainability reporting via the continuing education requirement
- A natural person may be approved to carry out a **statutory audit and an assurance engagement of sustainability reporting only after having attained university entrance or equivalent level, then completed a course of theoretical instruction, undergone practical training and passed an examination of professional competence of university final or equivalent examination level, organised or recognised by the EU Member State concerned**

Integration of financial and non-financial capacity building

Emerging requirements within the EU - CSRD

- Competent authorities shall take into account developments in auditing and in the audit profession and, in particular, convergence that has already been achieved by the profession.
- They shall cooperate with the Committee of European Auditing Oversight Bodies (CEAOB) and the competent authorities in so far as **such convergence relates to the statutory audit and assurance of sustainability reporting of public-interest entities.**

Integration of human capacity in the accounting profession: financial and ESG competency development

Examination of professional competence

The examination of professional competence referred to in Article 6 shall guarantee the necessary level of theoretical knowledge of subjects relevant to statutory audit and assurance of sustainability reporting and the ability to apply such knowledge in practice. Part at least of that examination shall be written.

- legal requirements and standards relating to the preparation of annual and consolidated sustainability reporting'
- sustainability reporting standards
- sustainability analysis
- due diligence processes with regard to sustainability matters
- sustainability assurance standards
- legal requirements and professional standards relating to statutory audit and assurance of sustainability reporting and statutory auditors

A closing note on the role of higher education institutions

One example of many of increased focus and urgency in regards to education that integrates ESG with financial accounting-reporting

American Accounting Association – Conference in February 2023 on

- Examples of how Sustainability is Integrated into an Established Accounting Course,
- Examples of Fully Developed stand-alone Courses on ESG accounting
- Case studies for teaching ESG accounting and reporting

Thank you for listening