

Consultative Meeting – 5 November 2024

UNCTAD – ISAR Accounting Development Tool (ADT)



Content – Understanding the ADT

- Background
- Objectives
- Structure
 - a. Capacity building Framework
 - Pillar A – B- C - D
 - b. An Assessment Questionnaire
 - c. Measurement Methodology



Accounting Development Tool (ADT)- Background

- In 2009 during UNCTAD's Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR), **discussions** of countries' capacity-building needs in **implementing international standards** and requirements for high-quality corporate reporting.
- In 2010 during the session of ISAR, the Group of experts highlighted **the importance of high-quality enterprise reporting** to facilitate the mobilization of financial resources both domestically and internationally, and to boost investor confidence
- In 2011, development of a **measurement tool** consisting of a questionnaire and an assessment methodology based on the capacity-building framework
- In 2017 and 2018, revision process of the ADT in order to incorporate new developments in the area of **ESG reporting, reflecting the role of enterprise sustainability** in the context of the 2030 Agenda for Sustainable Development and its Sustainable Development Goals (SDGs)



Accounting Development Tool (ADT)- Objectives

- To assist policymakers and other stakeholders in their efforts towards **strengthening** the accounting and reporting infrastructure for **high-quality and internationally comparable** corporate reporting
- Guidance on **key elements** of the accounting and reporting infrastructure for **high-quality reporting**;
- Guidance on **international benchmarks** for relevant policies and capacity-building;
- **Measurement indicators** and assessment methodology to identify gaps and priorities;
- Guidance on the main aspects of the **capacity-building process**;
- A tool **to monitor progress** in a consistent and comparable manner.



Accounting Development Tool (ADT)- Structure

The ADT has **three main components**:

- a. **A capacity-building framework** for high-quality corporate reporting that contains the essential elements that need to be in place in a country to ensure that high-quality reports can be prepared in accordance with international benchmarks and good practices ;
- b. **An assessment questionnaire** consisting of detailed questions and indicators to assess a country's status with regard to these elements against internationally recognized benchmarks ;
- c. A methodology for quantitative **measurement of a country's existing capacity** based on the assessment questionnaire.



(A) Capacity-building framework

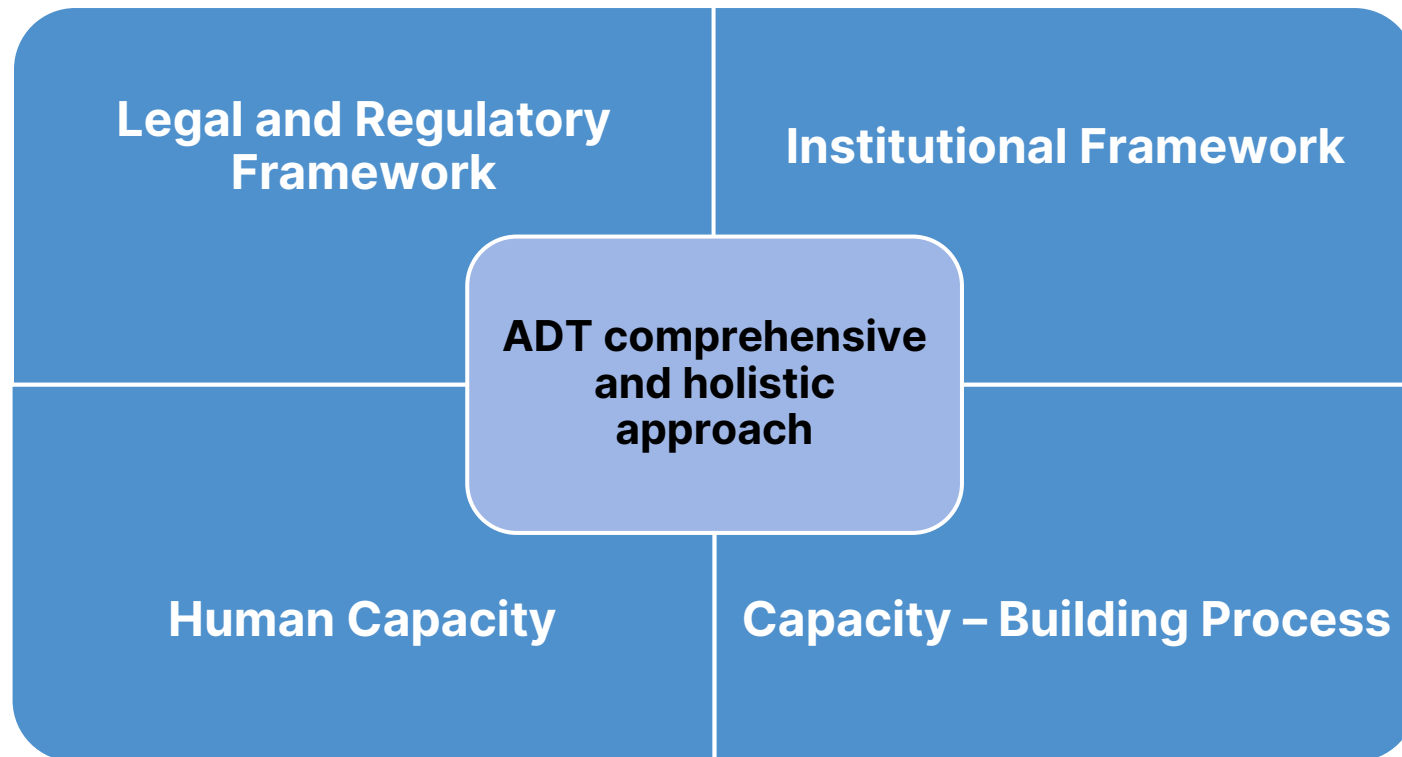
The capacity-building framework is **a conceptual foundation of the ADT**. In order to build capacity, some major decisions need to be taken to address the following issues:

- What tasks need to be performed along the reporting chain to ensure consistency, coherence and efficiency of efforts towards high-quality corporate reporting?
- What standards and requirements should be used to achieve high-quality corporate reporting?
- Who should be responsible and for which actions?
- How can it be ensured that tasks are implemented in a competent manner and the required technical expertise is in place?
- What should be the time frame and what financial resources are needed?



(A) Capacity-building framework - Structure

The capacity-building framework is structured into **Four main Pillars** based on a comprehensive and holistic approach.





Pillar A - Legal and regulatory Framework

- A.1 Financial reporting and disclosure
- A.2 Audit
- A.3 Incorporation of environmental, social and governance (ESG) information into enterprise reporting
- A.4 Corporate reporting requirements: enforcement, monitoring of implementation, and compliance
- A.5 Licensing of auditors
- A.6 Corporate governance
- A.7 Ethics
- A.8 Investigation, discipline and appeals



Pillar B - Institutional framework

- B.1 Financial reporting standards – institutional aspects
- B.2 Audit standards - institutional aspects
- B.3 ESG reporting and corporate governance - institutional aspects
- B.4 Compliance, monitoring and enforcement – institutional aspects
- B.5 Audit regulation - institutional aspects
- B.6 Coordination
- B.7 Ethics - institutional aspects
- B.8 Accountancy Profession - institutional aspects



Pillar C - Human Capacity

- C.1 Professional education and training
- C.2 Professional skills
- C.3 Assessment of accountancy capabilities and competencies
- C.4 Practical experience requirements
- C.5 Continuing Professional Development (CPD)
- C.6 Advanced level and specialized training after initial professional development
- C.7 Regulators and others in the reporting supply chain
- C.8 Requirements for accounting technicians



Pillar D – Capacity building process

- Understanding the **scope of the project**, that is, the framework of the capacity-building challenge;
- Assessing the **current situation**, taking into account cultural, political and socioeconomic conditions and key stakeholders;
- Identifying the **gaps** between the current situation and relevant international norms and best practice;
- Developing a strategy and **action plan** relevant to the country's needs, identifying priorities, defining resources needed, agreeing to a realistic time frame, and identifying counterparties and strategic partners;
- **Communicating the action** plan to all the key stakeholders;
- **Implementing** the plan;
- **Assessing** the action plan and progress made;
- Beginning **next stage** of the capacity-building process



(B) An Assessment Questionnaire

- **Quantitative measurement component of the ADT**, encompassing a list of indicators and appropriate methodology for estimation of the country's current accounting position and its progress towards convergence with the international high quality standards
- The questionnaire is structured **according to the pillars** defined in the capacity-building framework and **covers all areas of financial and non-financial reporting**
- The Questionnaire includes an Addendum with **an assessment of public sector reporting**. While this portion does not count towards the final assessment of the ADT, it provides countries and policy-makers with the tools to **measure their national infrastructure for public sector** accounting against international best practice



(B) An Assessment Questionnaire -Scope

- Encompasses **a wide range of enterprise** entities, from large, listed companies to medium-sized enterprises (SMEs)
- The indicators of each of the pillars A, B and C are specific questions that focus on the enterprise reporting framework for SMEs



(B) An Assessment Questionnaire - Example

Example of one question of the Questionnaire

Assessment Questionnaire on a country's capacity for high-quality corporate reporting ¹

			Yes	No	Source of information	Comments
V. Pillar A – legal and regulatory framework						
Indicator	A.1	A.1 Financial reporting and disclosure				
Questions	1.1	Are IFRS ² in full ³ , unmodified form required as part of the national regulatory system for:				
Checklist for 1.1	1.1.1	Domestic listed companies	<input type="checkbox"/>	<input type="checkbox"/>		
	1.1.2	Foreign listed companies	<input type="checkbox"/>	<input type="checkbox"/>		
	1.1.3	Banking sector	<input type="checkbox"/>	<input type="checkbox"/>		
	1.1.4	Insurance sector	<input type="checkbox"/>	<input type="checkbox"/>		
	1.1.5	Other public-interest entities ⁴	<input type="checkbox"/>	<input type="checkbox"/>		
	1.2	If they are not required, are IFRS in full, unmodified form permitted ⁵ as part of the national regulatory system for:				
Checklist for 1.2	1.2.1	Domestic listed companies	<input type="checkbox"/>	<input type="checkbox"/>		
	1.2.2	Foreign listed companies	<input type="checkbox"/>	<input type="checkbox"/>		

¹ The term corporate reporting in this questionnaire is used in a broader sense, including financial as well as non-financial reporting. It considers entities from all sectors, including listed companies, non-listed companies, banks, insurance and SMEs.

² Please provide specific reference to the legislation, regulation, decree or other similar instrument that brought into effect this requirement.

³ The term "full IFRS" refers to the complete version of IFRS, excluding IFRS for SMEs

⁴ Other public-interest entities: are entities other than listed companies, banks and insurance companies, that due to the nature of their business, their size or the number of their employees are of national interest.

⁵ If the answer to the corresponding category of the entity in 1.1 is "yes" please respond "yes" to 1.2. Since requiring IFRS in unmodified form is more stringent than permitting their use, countries that already require companies to apply IFRS in unmodified form should answer "yes" to both questions.



(C) Measurement Methodology

- The questionnaire uses a **binary** “yes = 1” and “no = 0” style of questions based on observable facts about a country’s accounting and reporting capacity
- No options for “not applicable”
- The statistical methodology for the assessment of the ADT questionnaire provides a consistent benchmark of 100 per cent for each of the assessed areas.
- The Questionnaire is divided according to the pillars defined in the capacity-building framework except Pillar D.
- Each pillar contains 8 indicators. All indicators have a set of related questions, and some of these questions have an associated checklist.



(C) Measurement Methodology- Formula

- The following formula is used to measure each indicator

$$I_i = \Sigma (\Sigma Y/CL)/Q_i$$

Where:

- Y = the answer to each question (or to each item of a checklist, if applicable). Respondents are expected to reach consensus on whether the answer would be "yes" or "no" for each question and checklist item. If "yes", Y = 1; if "no", Y = 0.;
- CL = number of checklist items under a question; should a question not have a checklist, CL = 1;
- Q_i = number of questions in the indicator;
- The Σ inside the parentheses is the sum over all checklist items of a question, and the Σ before the parentheses is the sum over all questions of the indicator.



Example of scoring by indicator

FIGURE 1. SPIDER GRAPH ILLUSTRATING THE RESULTS OF A COUNTRY'S ADT ASSESSMENT

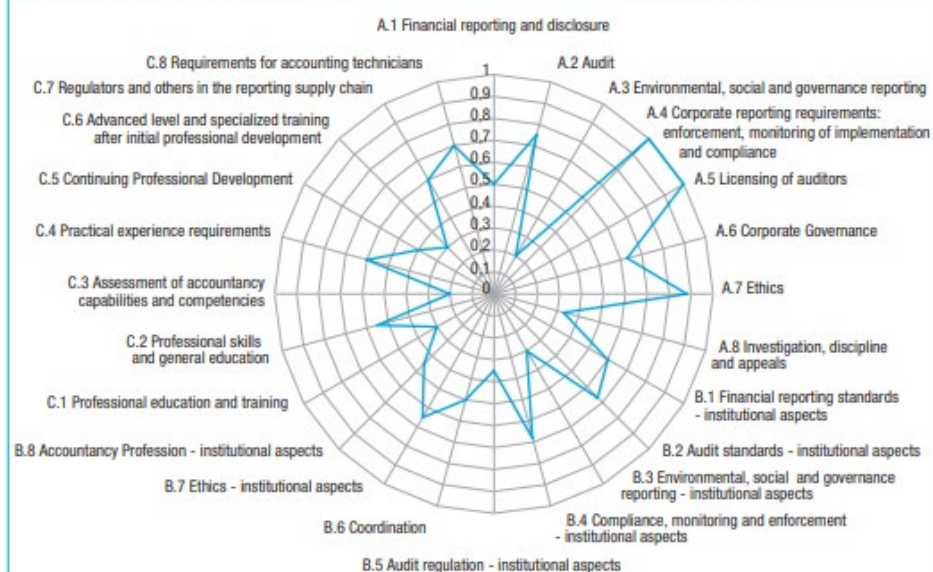
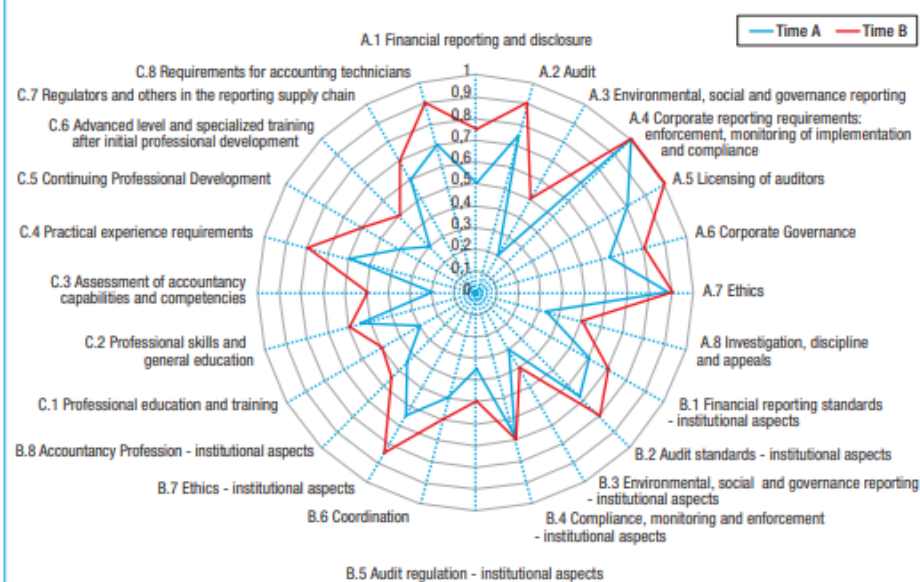


FIGURE 2. SPIDER GRAPH COMPARING THE ASSESSMENT RESULTS OF A COUNTRY AT TWO DIFFERENT TIMES





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Thank you

