



The World Bank Centre for Financial Reporting Reform



# Building a strong profession while serving the public interest

*The contribution of professional accountancy organizations to  
quality in financial reporting and auditing*

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6<sup>th</sup> cross-border meeting – Chisinau, June 22-23, 2012

- CFRR in a snapshot
- PAO's role
  - Not a trade association, not a regulator
  - Focus on Quality Assurance
- World Bank-CFRR support to PAOs
- Possible implications for Moldova

# CFRR in a snapshot



## Unit of the World Bank

- specialized in financial reporting
- serving 30 countries in Europe and Central Asia
- 17 staff and consultants based in Vienna, plus a network of experts throughout the region

WB  
Vienna  
office



- Diagnostics: **ROSC** Accounting and Auditing reports
- Regional TA and knowledge programs
  - FRTAP: 4 EU member states
  - **REPARIS**: 6 EU enlargement countries of the W. Balkans and Moldova
  - “**STAR**”: 5 EU Neighbourhood countries **NEW**
- Country-level projects
- Other publications (e.g., guide to EU *acquis communautaire*)
- Regional and local events (e.g., REPARIS ministerial conference)



## PAO's role



Not a trade association, not a regulator  
Focus on quality assurance



## Sustainable Growth and Employment Generation



- Internationally
  - IFAC's Statements of Membership Obligations
  - IFAC's three-tiered governance
  - US: Sarbanes-Oxley Act of 2002
  - Other international experience
- EU
  - Directive 2006/43 on statutory audits
  - Proposed revised directive on audits and new regulation on audits of public-interest entities (Nov. 2011)
  - National legislation

# What is the “P” in PAO?

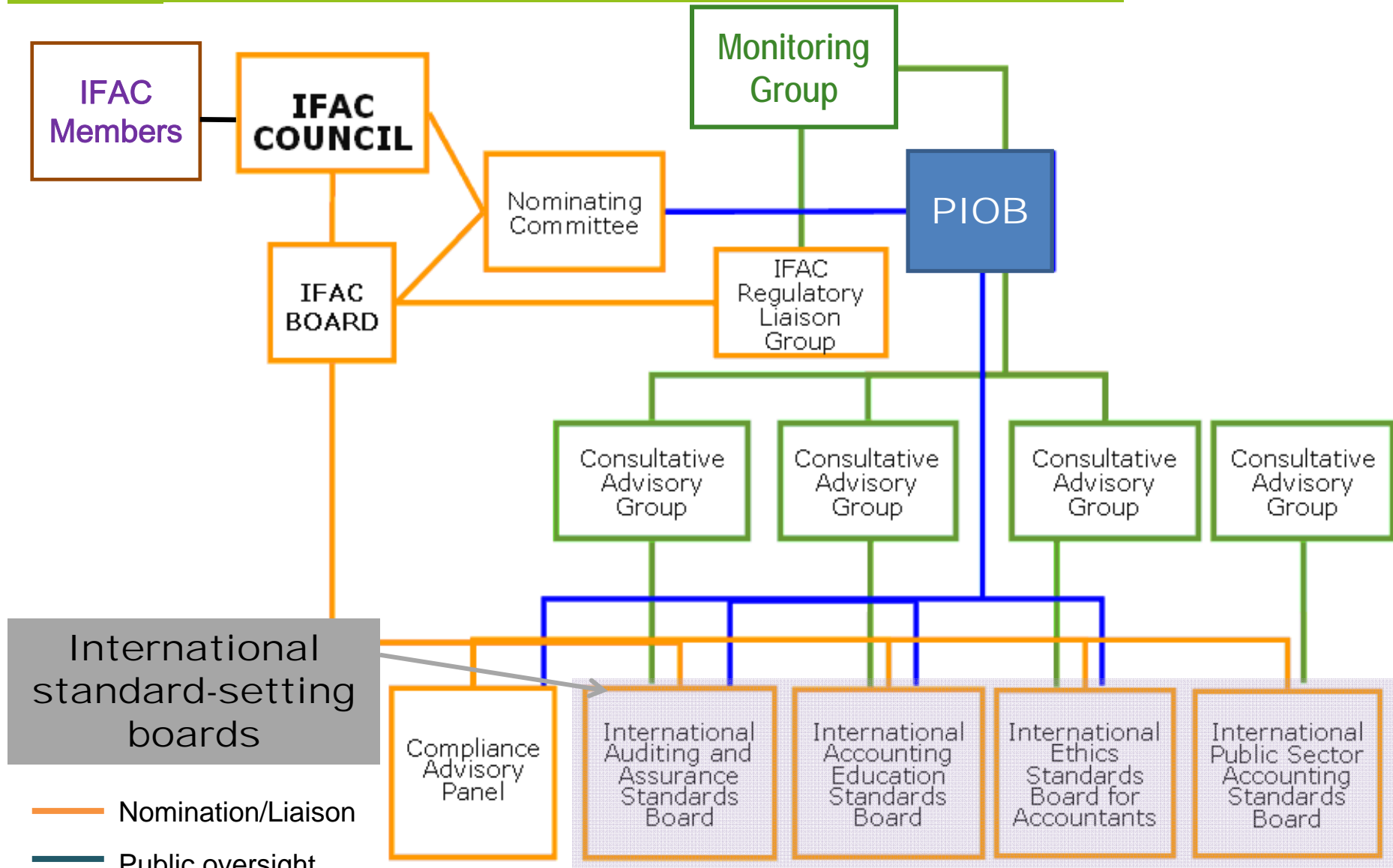
- “A profession is a **disciplined group of individuals** who adhere to **ethical standards** and (...) are **accepted by the public as possessing special knowledge and skills** (...), and who are prepared to apply this knowledge and exercise these skills **in the interest of others**”
- A **code of ethics** governs the activities of each profession....
- [Codes] define and demand **high standards of behavior and practice** in respect to the services provided to the public and in dealing with professional colleagues.
- “These codes are **enforced by the profession** and are **acknowledged and accepted by the community**”

Source: Council on Professions, Australia

- << to **serve the public interest** by:
- contributing to the (...) implementation of **high-quality international standards and guidance**
  - contributing to the development of **strong professional accountancy organizations and accounting firms**, and to **high-quality practices** by professional accountants
  - **promoting the value of professional accountants worldwide**
  - **speaking out** on public interest issues where the accountancy **profession's expertise** is most relevant.
- >>

Source: [www.ifac.org/about-ifac/organization-overview](http://www.ifac.org/about-ifac/organization-overview)

# IFAC's Three-tiered Governance



Source: Monitoring Group and PIOB (2012)

- **7 Statements of Membership Obligations (SMOs)**

SMO 1 **Quality Assurance**

SMO 2 **Education** standards and guidance (incl. CPD)

SMO 3 **ISA** and other assurance standards and guidance (incl. ISQC1)

SMO 4 Code of **Ethics**

SMO 5 **IPSAS** and related

SMO 6 **Investigation and Discipline**

SMO 7 **IFRS**

- Member bodies to use their **best endeavors**\* to meet their obligations.

\* << *Serious determined effort; activity directed toward a goal*>>

- Standards, competence, compliance and quality are objectives and concerns **shared** by
  - the profession
  - governments and regulators
  - financial statement users and the public at large
- Framework based on a balanced mix of
  - **self-regulation** (by the PAO)
  - **public oversight and accountability** and
  - **external monitoring** by a public body or regulatory agency, mainly for public-interest entities (PIEs) and their auditors

## Areas of regulation

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- Entry requirements, registration
- Setting professional standards and codes
- Continuing Professional Development
- Monitoring the audit practice
  - Quality Assurance
  - Investigation & Discipline

## Role of PAO

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- ✓ Leading role, with public oversight
- ✓ Leading role, with public oversight
- ✓ Leading role
- ✓ Leading role or shared with POB  
In some cases, no role for PIE audits

Survey by the Independent Forum of Independent Audit Regulators (IFIAR): 3 broad approaches to QA

1. Public Oversight Body (POB) inspects PIE auditors plus some non-PIEs auditors
2. POB inspects PIE auditors and PAO inspects non-PIE auditors
3. PAOs perform all inspections, overseen by POB
  - usually suitable for early-stage quality assurance system / nascent POB
  - system in place in most new EU member states (e.g., Czech Republic, Poland and Slovenia) and in Croatia

The member body should

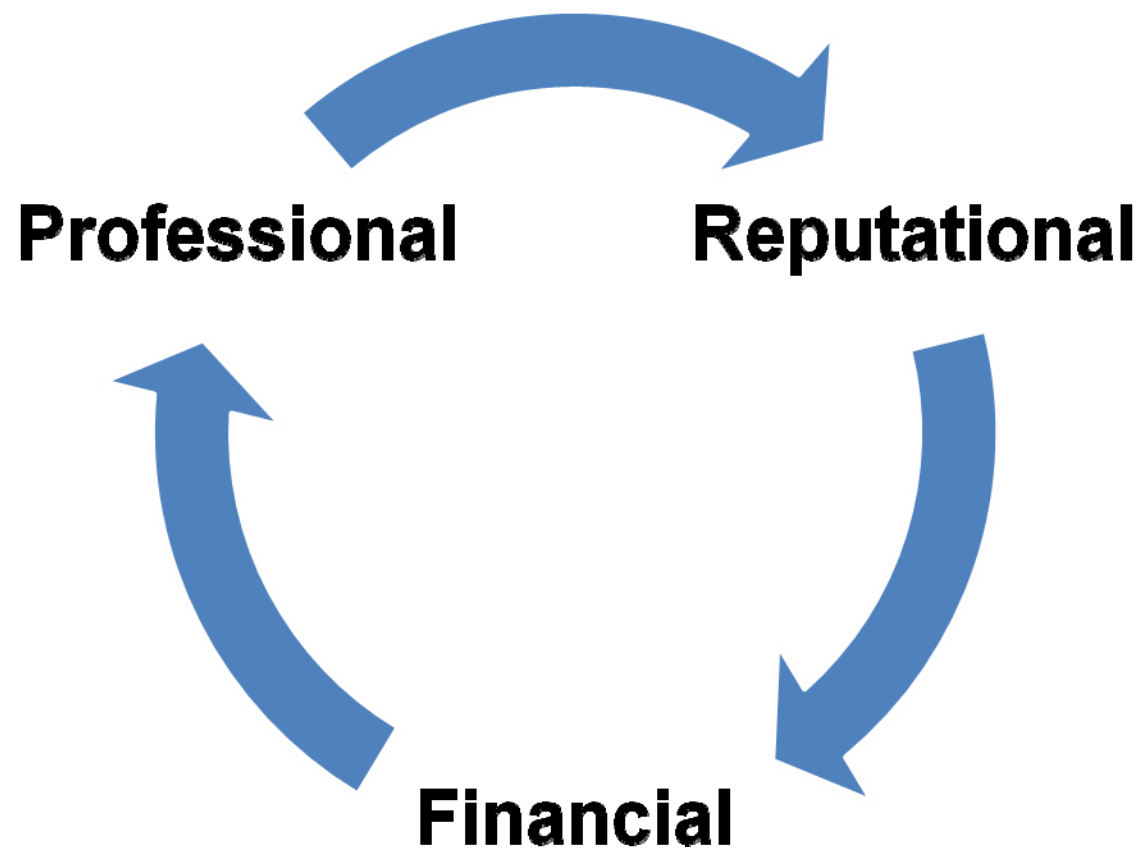
- **ensure a mandatory quality assurance review program is in place for those of its members performing audits** of financial statements of, as a minimum, **listed entities**.
- (...) establish and publish criteria for evaluating all other audits of financial statements (...); any engagements meeting these criteria should be included in the scope of the quality assurance review.

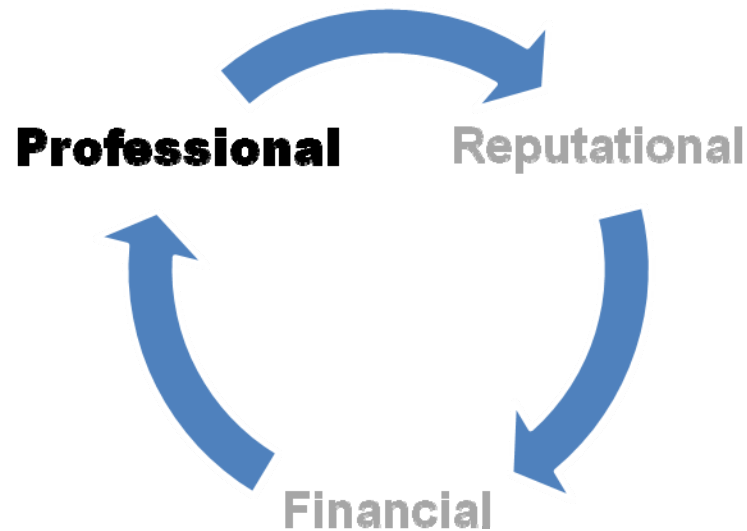
**Where government, regulators or other appointed authorities perform any of the [QA] functions**, member bodies should:

- (a) Use their best endeavors to **encourage those responsible** for those functions **to follow this SMO** in implementing them; and
  - (b) **Assist them in that implementation** where appropriate.
- (...) deal with those aspects (...) not within the scope of the program established by the government (...)

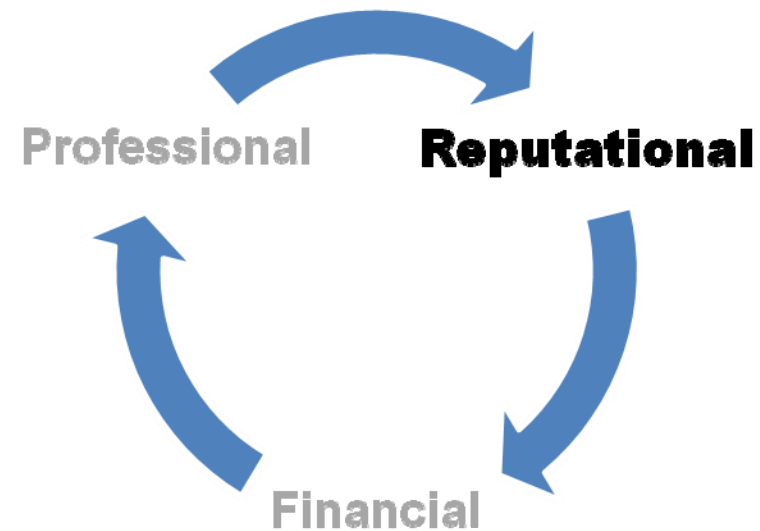
- Unclear role under the law or inappropriate legal backing
  - Low demand for financial reporting and A&A services
  - Negative legacies of the past, resistance to change
  - Lack of awareness among the membership on new trends affecting the market for the provision of accounting and audit services
  - Divisions within the profession
  - Weak linkage with academia
  - High costs of fulfilling the functions assigned by law or SMOs
  - Cost of local language translations
  - Insufficient revenues from member dues
  - Etc.
- All these issue are related to one question: **sustainability**

# 3 Dimensions of PAO Sustainability



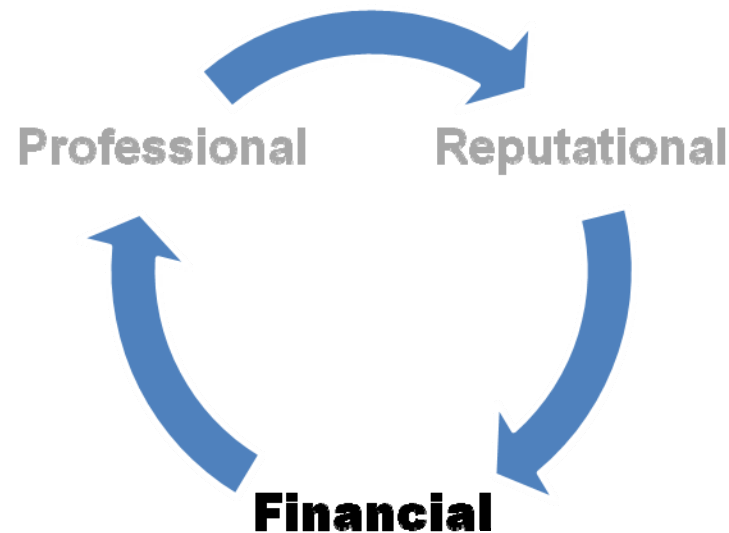


- Seen as source of thought leadership on all A&A issues
- Supports members in the application of professional standards



- Recognized by society as serving the public interest
- Practitioners perceived as making critical contribution to country's financial ecosystem"
- A&A seen as a worthwhile career

- Generates enough revenues and resources to be able to fulfill role effectively
- Members contribute proportionally to their activities and public interest involved





# World Bank-CFRR support to PAOs



# CFRR Support to PAOs in a Snapshot



Area	CFRR-led Activity
Sustainability	<ul style="list-style-type: none"><li>• Support to IFAC membership/ compliance</li><li>• South-south exchanges</li><li>• Support to twinning programs</li><li>• ROSC reports</li><li>• Regional events</li></ul>
Entry requirements, accounting education	<ul style="list-style-type: none"><li>• REPARIS Edu-CoP regional workshops</li></ul>
CPD	<ul style="list-style-type: none"><li>• REPARIS Edu-CoP regional workshops</li><li>• Train-the-trainer programs on ISA</li></ul>
Audit QA and oversight	<ul style="list-style-type: none"><li>• REPARIS CFR-CoP regional workshops</li><li>• Study trips</li><li>• Support to twinning programs</li></ul>

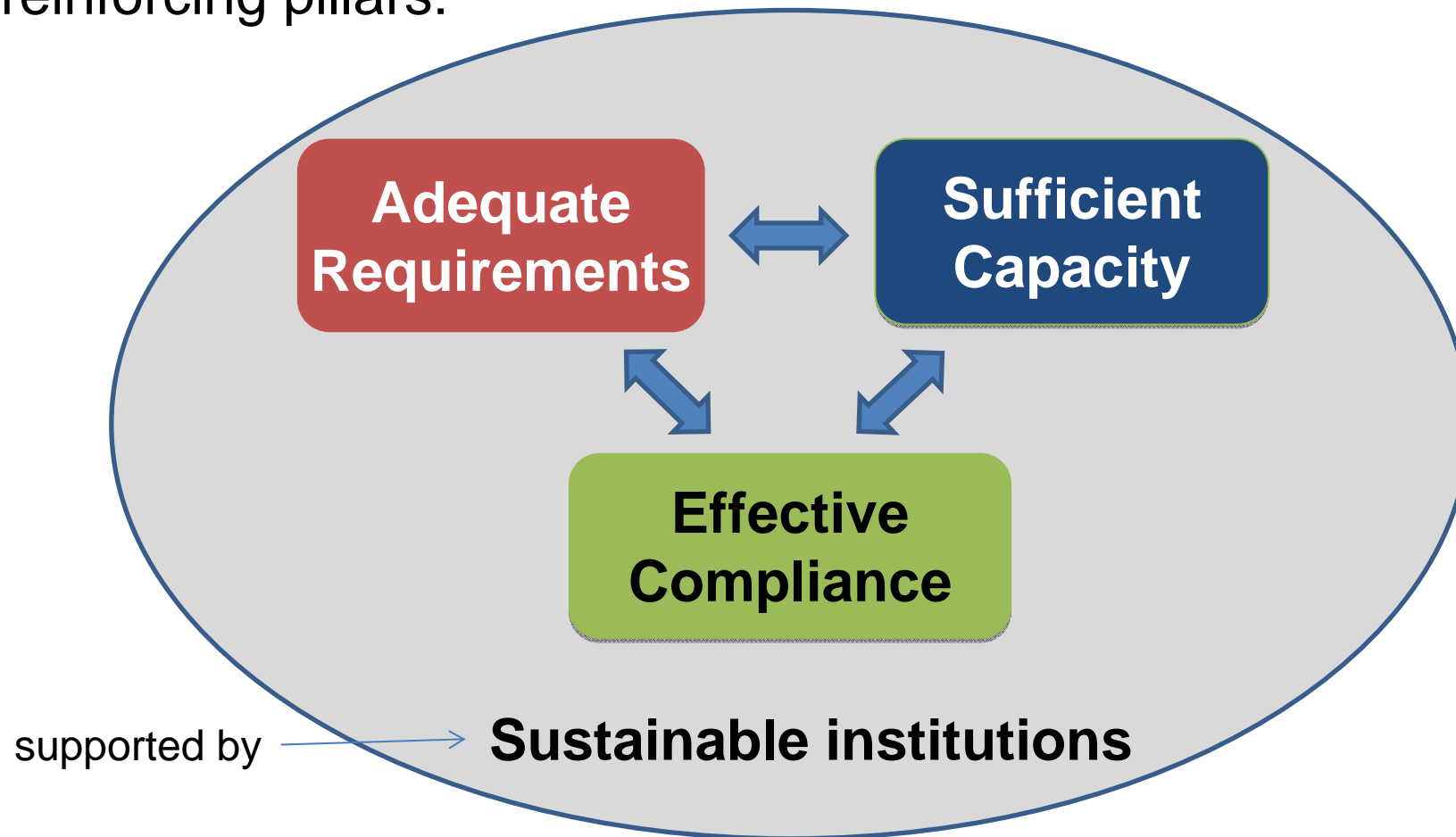


## Possible implications for Moldova



# Pillars of a Strong CFR System

Strong corporate financial systems are built on three mutually-reinforcing pillars:



Goal	What is needed to achieve the goal?
Establish adequate CFR requirements	<ul style="list-style-type: none"><li>• Bring the regulatory framework toward alignment with the EU <i>acquis</i></li><li>• Appropriate legal backing to PAOs</li></ul>
Build sufficient capacity	<ul style="list-style-type: none"><li>• Build the capacity of practicing accountants and auditors to apply relevant standards (ISA, etc.)</li></ul>
Ensure effective compliance	<ul style="list-style-type: none"><li>• Create incentives for practitioners to comply with the standards</li><li>• Introduce QA</li></ul>
Sustainable institutions	<ul style="list-style-type: none"><li>• Fulfill IFAC membership obligations</li><li>• “Activate” audit POB</li></ul>

- Based on international experience incl. in countries in Central, Eastern and South-East Europe, two main approaches seem possible
  1. Establish a “Chamber of Auditors”, with compulsory membership for all (statutory) auditors and audit firms
  2. Require auditors and audit firms to be affiliated with an approved professional body/PAO

- Main functions
  - Entry requirements
  - Making international standards official in Moldova
  - Developing guidance for SMPs based on IFAC material
  - Setting requirements and monitoring auditor CPD
  - Quality control of auditors and audit firms
- Should meet the requirements of applicable SMOs
- Would play a significant “delegated” regulatory role
- Main benefits:
  - Specialization
  - May help to unify the audit profession

- Main challenges
  - New institution or transforming an existing one?
    - Can the country sustain several PAOs?
    - If totally new institution, existing PAO capacity built over years may be wasted
    - If existing PAO, management of the transition would required careful attention
    - IFAC membership issue
  - Legal backing
  - Funding
  - Audit QA performed by who and how?

- Requiring auditors to be affiliated with an approved professional body
- Could mean several recognized professional bodies (PAOs) in Moldova
- Main challenges:
  - Recognition/accreditation should follow a rigorous, transparent process and criteria consistent with European practice
  - Risk of perpetuating a fragmented profession
- Under both scenarios
  - Legal changes required
  - Public oversight should be an important element

- Leading role in
  - Setting professional standards
  - Raising the membership's awareness of new standards and approaches to delivering services, and ensuring its continuing professional development
  - Monitoring the quality of the practice among SMPs
  - Promoting the role of accountants vis-à-vis the society
- Key support role in
  - A&A standard-setting, working with government and financial regulators
  - Monitoring the quality of audit practice among PIE auditors



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**Thank you for your attention**

**Questions?**

**[worldbank.org/cfrr](http://worldbank.org/cfrr)**

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