

---

Contact(s)	<b>Simon Bradbury</b>	sbradbury@worldbank.org
------------	---------------------------	-------------------------

---

Topic	<b>Reports on the observance of standards and codes – accounting and auditing</b>
-------	---

---

---

This paper has been prepared for discussion at a public meeting of the IFRS Advisory Council of the IASB.

The views expressed in this paper are those of the authors.

Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS—only the IFRS Interpretation Committee or the IASB can make such a determination.

The tentative decisions made by the IASB at its public meetings are reported in IASB *Update*. Official pronouncements of the IASB, including Discussion Papers, Exposure Drafts, IFRSs and Interpretations are published only after it has completed its full due process, including appropriate public consultation and formal voting procedures.

---

# REPORTS ON THE OBSERVANCE OF STANDARDS AND CODES – ACCOUNTING AND AUDITING

PRESENTATION TO THE IFRS ADVISORY  
COUNCIL

OCTOBER 11, 2011  
THE WORLD BANK



## OUTLINE

---

- The World Bank's interest in IFRS
- The World Bank's roles in the international financial regulatory architecture
- The ROSC Initiative
- A&A ROSCs – description, structure and content
- Issues and trends from completed A&A ROSCs
- Next Steps



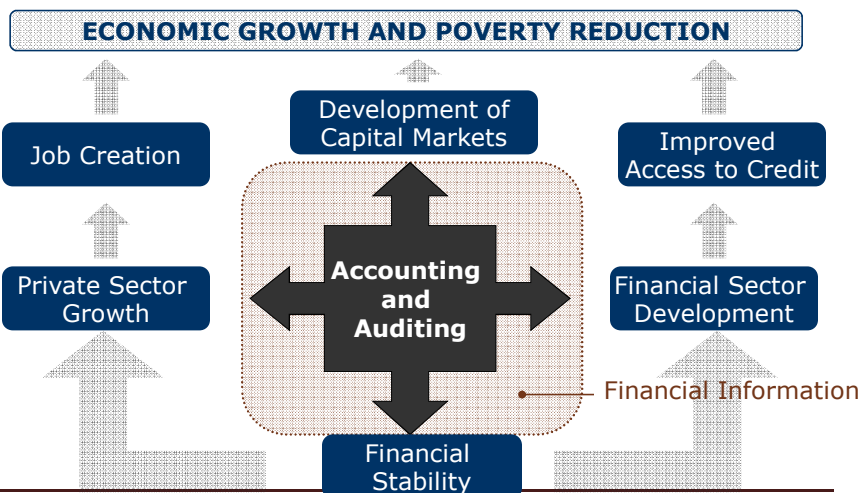
## WORLD BANK INTEREST IN IFRS

- As a development institution – importance of high quality financial reporting to development
- As a user – of financial statements furnished by Bank-financed operations
- World Bank as preparer:
  - \$476bn balance sheet, large structured bond portfolio
  - Public filer with SEC, reporting under US GAAP
  - Would prefer IFRS, but....
- As a participant/observer in the international financial regulatory community



3

## IMPORTANCE OF HIGH QUALITY FINANCIAL REPORTING



## WB ROLES IN FINANCIAL REGULATION

---

- G-20, G-7, G-8, ASEAN, APEC
- FINANCIAL STABILITY BOARD
- IFRS ADVISORY COUNCIL
- IIRC
- IFAC – MONITORING GROUP, PIOB, IAASB/IESBA  
CAGS, IPSASB
- IFIAR



5

## THE ROSC INITIATIVE

---

- Launched in the late 90s following the Asian financial crisis
- Summarizes the extent of country compliance with internationally recognized standards and codes
- Focuses on 3 areas: (i) Macroeconomic Policy and data transparency; (ii) Financial sector regulation and supervision; and (iii) Market integrity – institutional and market infrastructure



6

## STANDARDS AND CODES UNDER THE INITIATIVE

Policy Transparency	Financial Sector Regulation	Market Integrity
Special Data Dissemination Standard (SDDS) and	Basel Committee's Core Principles for Effective Banking Supervision	Basel Committee's Core Principles for Effective Deposit Insurance Systems
General Data Dissemination System (GDDS)	IOSCO's Objectives and Principles of Securities Regulation	OECD's Principles of Corporate Governance
Code of Good Practices on Fiscal Transparency	IAIS Insurance Supervisory Principles	IFRS and ISA (IASB/IAASB)
Code of Good Practices on Transparency in Monetary and Financial Policies		World Bank Creditor Rights and Insolvency Standard  FATF 40+9
<i>(all the above issued by the IMF)</i>		CPSS Core Principles and Recommendations



7

## WHO DOES WHAT?

- The IMF assesses policy and data transparency
- The World Bank assesses accounting and auditing (A&A), corporate governance and insolvency and creditor rights
- All other policy areas are assessed by either the IMF or the Bank – or jointly – depending on circumstances



8

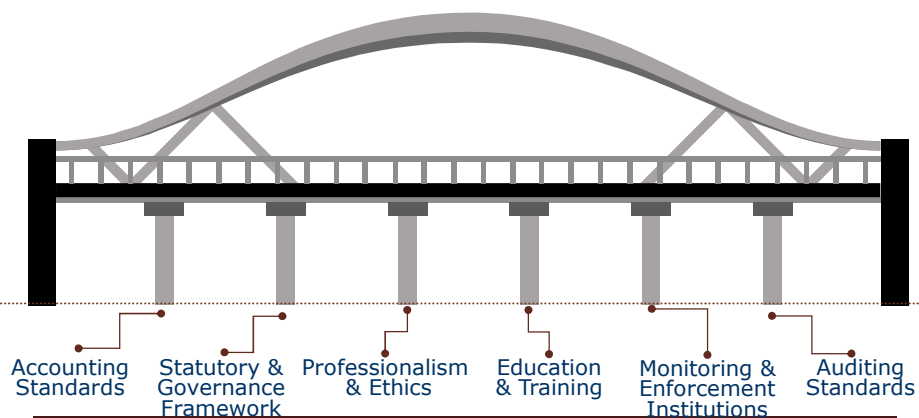
## A&A ROSCs

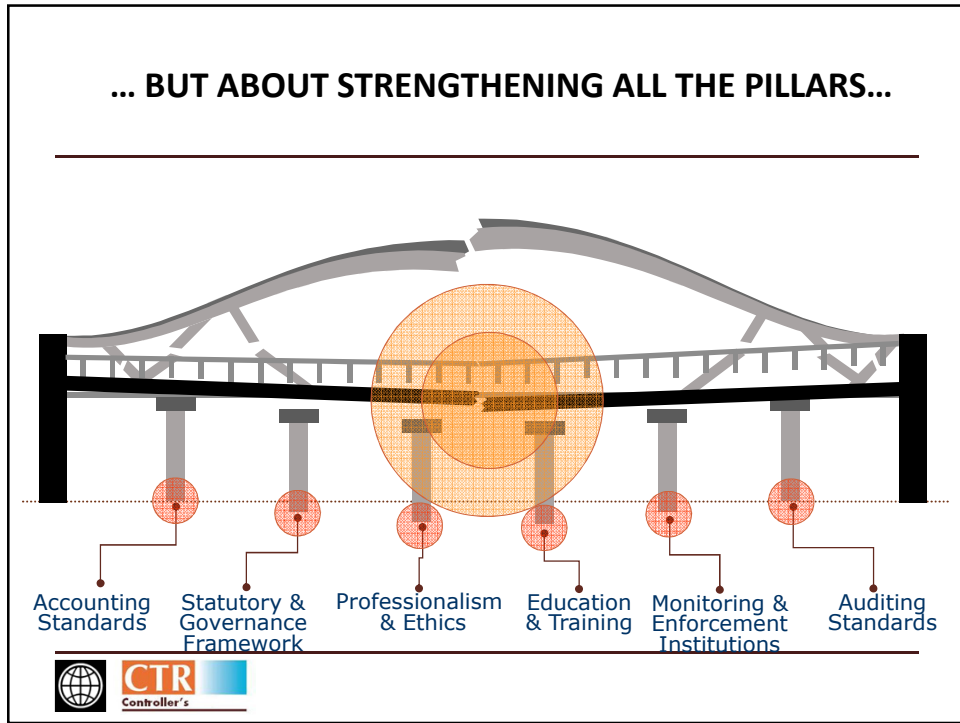
- Aims to assist countries to improve the quality of financial reporting through improved accounting and auditing, by:
  - Analyzing the comparability of national accounting and auditing standards with international standards
  - Determining the degree of compliance with applicable accounting and auditing standards
  - Assessing strengths and weaknesses of the institutional framework for supporting financial reporting



9

## IT'S NOT JUST ABOUT IFRS AND ISA ...





**STRUCTURE AND CONTENT OF A&A ROSCS**

Section	
1	Introduction and country context
2	Assessment of strengths and weaknesses in the institutional framework for financial reporting:
	Statutory framework The profession Education and training Setting and enforcing accounting and auditing standards
3	Comparison of applicable accounting standards to IFRS, and the degree of compliance with the adopted standards
4	Comparison of adopted auditing standards to ISAs, and the degree of compliance with the adopted standards
5	Perception of the quality of financial reporting among users
6	Policy recommendations

12

## CURRENT STATUS

---

As of June 30, 2011:

- 120 A&A ROSCs completed
- 100 published

A&A ROSCs are typically for developing countries

At the request of the govt, WB prepared a ROSC for the UK

In the wake of the crisis, there is some demand for more Bank-led ROSCs in developed countries



13

## GLOBAL THEMES

---

- Weak professional accountancy organizations
- Lack of timely availability of translated IFRSs
- Inadequate statutory frameworks for financial reporting
- Challenge of keeping up with pace of change
- SME issues
- Weak enforcement regimes



14



## ISSUES & TRENDS: SETTING ADEQUATE REQUIREMENTS

---

- The majority of countries were assessed to have statutory frameworks in need of significant improvement
- Most countries had sought to adopt, adapt or converge with IFRS
- In some countries there was either a fundamental gap between national and international standards, or no national standards



15

## ISSUES & TRENDS: SETTING ADEQUATE REQUIREMENTS

---

- Financial reporting requirements for SOEs are in need of improvement
- In many countries financial reporting requirements are for tax purposes, and in some cases dictate the content of what should be standards for general purpose reporting
- The SME sector is poorly served, either by a lack of guidance or regulation, or by requirements to comply with standards for listed corporations



16

## ISSUES & TRENDS: DEVELOPING CAPACITY

---

- In most countries the professional bodies lack the resources, knowledge and skills to perform their role of building a high-quality profession
- The public practice licensing requirements for auditors and accountants in most cases fell short of IES
- CPD was one of the consistently weaker areas in the A&A ROSC countries – either it is not addressed, or where there are requirements they are not monitored



17

## ISSUES & TRENDS: ENFORCING REQUIREMENTS

---

- Often the weakest element, although tending to be relatively stronger in the financial sector
- Compliance with the adopted accounting standards was a major challenge in most countries
- Most countries lacked an independent audit oversight body



18

## FOLLOW-UP TO A&A ROSC REVIEWS

---

- Relatively greater emphasis on follow-up and implementation rather than on diagnostics
- World Bank aims to work with countries to develop a Country Action Plan (CAP) to address findings and implement reforms
- Significant achievements in implementing ROSC recommendations in many countries
- But implementation of reforms is inconsistent across countries



19

## NEXT STEPS

---

- How do we scale up for greater impact?
- Opportunities for greater IFRS/World Bank collaboration?
- Maintaining an up-to-date database tracking IFRS implementation?
- How can we use the body of information for e.g., better compliance monitoring, cross-border consistency of audits?
- Role for IASB in actively partnering with WB on continuous improvement of the ROSC methodology?



20

---

QUESTIONS?

