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## **Economic Growth and Governance Initiative**

### **Proposed National Accounting Reform Strategy for Afghanistan**

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## Executive Summary

1. The World Bank report “Observance of Standards and Codes (ROSC) – Accounting & Auditing in Afghanistan” (February 2009) assessed the urgent need in Afghanistan for an accounting and auditing framework in order to facilitate additional private investment and stimulate sustainable economic growth. Investor confidence is fundamental to the successful and effective operation of financial markets. When making decisions about capital allocations and investments, investors need reassurance that financial information is credible, comparable and reliable. Sustainable financial sector development in Afghanistan will require a financial reporting framework underpinned by a strong regulatory environment and an efficient functioning accounting profession. Without these conditions, it will be difficult to build viable domestic financial markets and attract the necessary foreign direct investment that is urgently needed in the Afghan economy.
2. Afghan legislation currently does not prescribe the baseline investor requirement of an Independent Statutory Audit, performed by an independent professionally qualified and licensed Auditor in accordance with the International Standards of Auditing Framework. Furthermore, current legislation does not prescribe the regulation process or an authority for effective regulation of the accounting profession.
3. There is a distinct lack of domestic accounting capacity in Afghanistan. There are 16 audit firms registered with Afghanistan Investment Support Agency (AISA), several of which are currently inactive. There are approximately 20 internationally qualified accountants in the entire country, the majority of which are from neighboring countries. Although there are approximately 50 to 70 ACCA Certified Accounting Technicians/Bookkeepers (CAT) this group is not technically qualified to deliver International Financial Reporting and auditing frameworks. There is no national curriculum or certification process for professional accountants and auditors. The National University curriculum does not incorporate the International Financial Reporting Standards (IFRS) or International Standards of Auditing (ISA) framework.
4. This report proposes the following reform strategy to deliver the policy recommendations of the World Bank ROSC report:
  - **A new Law on Accounting and Auditing should be enacted** to harmonize Afghanistan’s legal environment with international norms with respect to financial reporting, audit, certification of accountants/auditors and regulation of the accounting/audit profession;
  - **An independent, self-regulating Institute of Accountants and Auditors should be established** with the legal structure, operating policies and procedures to qualify for membership of the International Federation of Accountants (IFAC). The Institute would regulate the profession in a manner prescribed by the new Afghan Law on accounting and auditing;
  - **A specialized School of Accounting should be established** in order to fast track the development of domestic accounting capacity;
  - **The School of Accounting should assist curriculum reform at National Universities** and deliver training to enhance education delivery at university and private colleges to contribute to professional accounting capacity development in the medium to long term.
  - **Afghanistan accounting technical education curriculum and examination should initially be in the English language**, until sufficient professional capacity exists to deliver local language alternatives.
  - **Examination of the Accounting curriculum should be direct informed by the ACCA**, with the exception of those curriculum subjects relating to Law and Taxation. These should be examined locally. A Letter of Agreement (LOA) should be signed with ACCA to allow

successful Professional Chartered Accountants from Afghanistan to further pursue the completion of Level 3 ACCA and result in dual professional qualification.

- **The Institute of Accountants and Auditors should deliver practical International Financial Reporting Standards (IFRS) training** to entity accounting personnel in order to promote and enable better financial reporting in the short term in preparation for legislated requirements when the new Law is enacted.
5. It is proposed that the above reform strategy be implemented through the following 3 components:
- **Component I:** Enact a new Law on Accounting and Auditing;
  - **Component II:** Establish an Institute of Accountants and Auditors in Afghanistan;
  - **Component III:** Establish School of Accounting.
6. Delivery of these components should ideally commence in tandem to ensure that capacity and regulation can facilitate compliance with legal requirements once the accounting law is enacted. Detailed project descriptions of the components are outlined in the appendices below. The **establishment of a National Steering Committee (NSC) will be critical to ensuring success of the reform objective**. The ROSC Report had recommended the establishment of an Audit Oversight Board in the MOF. This report recommends that this be deferred to a future date when audit capacity has been sufficiently developed to warrant separate and additional (i.e. in addition to National Institute of Accountants) oversight by Government.
7. A summary component delivery matrix is outlined below:

<b>Component</b>	<b>Deliverable</b>	<b>Required support</b>
Component 1: Accounting/audit legislation	Develop and enact national accounting and audit law	2 expat advisors (one legal and accounting) for a minimum of 13 months to support MOF develop and pilot the law through Parliament
Component 2: Accounting/audit regulation	Develop and operationalise national institute of accounting and auditing	2 expat advisors (accounting and institutions) for a minimum of 13 months to support the establishment of the national institute. The institute would also require seed funding in the initial phase of operation.
Component 3: Accounting/audit education	Develop and operationalise specialized school of accounting and auditing	A detailed strategy on the necessary steps/resources required to set up the school would need to be developed.

## Introduction

1. This report was commissioned by USAID in December 2009 as a scoping assessment of the accounting environment in Afghanistan. Wide consultation was undertaken with a range of stakeholders in the preparation of this report including:
  - Government of the Islamic Republic of Afghanistan (GIROA) stakeholders including Ministry of Finance<sup>1</sup>, the Da Afghanistan Bank and the Control and Audit Office (CAO);
  - Donors with particular focus on USAID, World Bank, DFID and the ADB;
  - Civil society institutions with particular focus on Harrakat, the Afghan Chambers of Commerce, the Kabul University, the American University in Kabul and the Kardan Institute;
2. The policy recommendations made in the World Bank report “Observance of Standards and Codes (ROSC) – Accounting & Auditing in Afghanistan” (February 2009) were taken as the baseline for analysis. The report will build on these recommendations and examine the roles and responsibilities of various stakeholders in stimulating the accounting sector in Afghanistan.
3. The assessment will capture information on capacities and needs of the public and private sectors, standards and licensing, and inventory of public and private education/training programs. In particular, the scoping assessment will focus on identifying distinct opportunities for USAID (and other donors) support in stimulating the development of the accounting sector in Afghanistan. These opportunities will be outlined in a clear action plan, with estimated timelines and clear deliverables (see appendices).

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<sup>1</sup> In particular the budget, audit and state owned enterprise departments

## Part I: Current Account Institutional Framework in Afghanistan

### (A) Statutory/Legal Framework for Corporate Reporting and Auditing in Afghanistan

4. There are approximately 10,000 entities in Afghanistan currently registered with AISA, of which 86% are Limited Liability Companies, 8% sole proprietors, 4% partnerships and 2% Corporations<sup>2</sup>. In order to facilitate better access to private investment and stimulate wider financial sector development, Afghanistan's financial reporting and regulation system will need to better evaluate investment and financial risk, both in terms of stimulate initial investment/financing and evaluating ongoing performance and associated changes in risk profile of the investment.
5. From a legal perspective, this will require the legal prescription of the International Financial Reporting Standards (IFRS) Framework for preparation of Financial Reports, the Statutory Audit in accordance with International Standards of Auditing (ISA) and an internationally recognized Certification process for licensing and regulation of Auditors in public practice.

#### A.1. Commercial Entities

6. Prior to 2007, the legislation overseeing Afghan corporate reporting was the Commercial Code of 1955. However, this law did not deal with issues of financial reporting within any prescribed accounting framework nor did it require or refer to any statutory audit process. It referred to such general matters as types of accounting books to be maintained, their contents and the process of getting accounting books marked and sealed by a local registration office. The Law did prescribe the establishment of a Board of Supervisors<sup>3</sup> (BOS). It also regulated who could serve on the BOS and stipulated certain provisions as to ensure the independence of those serving from the Company management and from involvement in business transactions with the company. The Law did not prescribe the competencies or qualifications of those serving on the BOS. The role of the BOS included assistance to the Board of Directors in preparation of financial reports, the checking of these reports and submission to the general assembly of the company. This function cannot be equated to a statutory audit as no audit framework is specified nor are the BOS members required to have any specialized relevant professional qualification/skills.
7. In 2007, the Law of Corporations and Limited Liability Companies was passed by Presidential Decree. This Law prescribes the IFRS Financial Reporting Framework but only prescribes that the Financial Statements comprise a Balance Sheet and Income Statement. No requirement was specified for the additional Cash Flow Statement, Statement of Changes in Equity and Notes to Financial Statements required by International Accounting Standard #1 (IAS 1). Therefore, strict adherence to this reporting structure would result in non IFRS compliance.
8. The Law of Corporations and Limited Liability Companies did not address the deficiencies of the Commercial Code of 1955 with respect to full compliance with IFRS Reporting Framework, nor with respect to Statutory Audit in accordance with ISA Framework, nor with the certification and licensing of Auditors in Public Practice.

#### A.2. Banking Sector

9. Banks in Afghanistan operate as Limited Liability Companies (LLCs) and are subject to the Law of Corporations and Limited Liability Companies (2007) - addressed above. However, the Banking sector is also regulated by additional banking sector specific legislation (Law of Da Afghanistan Bank, 2004 and Law of Banking in Afghanistan, 2004) as well as separate Central Bank regulations.

<sup>2</sup> World Bank ROSC report February 2009

<sup>3</sup> 2 persons, appointed by the Board of Directors in the General Assembly to serve for a period of 2 years

10. As a result of additional banking specific legislation and regulations, the banking sector is currently aligned with international norms<sup>4</sup>. The ROSC study did however highlight that the financial statements of some banks did not comply with some fundamental IFRS standards, namely IAS 1 - Presentation of Financial Statements and IAS 30 - Disclosures in the Financial Statements of Banks and similar financial institutions.

### *A.3. State Owned Enterprises (SOEs)*

11. The Law of State Owned Enterprises<sup>5</sup> regulates accounting reporting requirements for Afghanistan's SOEs. The ROSC Report described the SOE reporting process as "consisting of a very basic set of financial information, closer to a trial balance, as opposed to general purpose financial statements" and "there is no provision for an independent audit".

### *(B) Assessment of the Accounting and Audit Profession in Afghanistan*

12. International investor confidence in financial reporting and auditing requires the internationally recognized and acceptable legal framework prescribing International IFRS Financial Reporting, ISA Audit Framework and International practices with respect to Certification, Licensing and Regulation of work practices of licensed auditors.
13. Effective regulation of the accounting profession usually requires a national Institute of accountants and auditors, which is recognized and empowered within the legal system to fulfill this regulatory responsibility. International investor confidence in this regulatory process would normally require an Institute recognized by the International Federation of Accountants (IFAC). This recognition benchmark requires institute acceptance by IFAC as an associate member or full member of IFAC.

### *B.1. Regulatory Body for Professional Accountants and Auditors in Afghanistan*

14. There is currently no regulatory body for professional accountants in Afghanistan. Audit Practices may register for business activity with the Afghanistan Investment Support Agency (AISA) but this body is not required to screen applicants with respect to professional qualification or competencies, nor does it perform post registration regulation.
15. In December 2007, the Afghanistan Society of Accounting Technicians (ASAT) was established to represent the body of CAT students and the qualified CAT graduates. This is a very important initiative in establishing a bottom up input to developing an "accounting culture" in the economy but it must be emphasized that this Society represents Accounting Technicians (Bookkeepers) and not Professional Accountants and Auditors.

### *B.2. Accounting and Auditing Professionals in Afghanistan*

16. Afghanistan needs professional accounting capacity to deliver the regulations of a new Law on Accounting and Auditing. The Institute of Accountants and Auditors will require a supply of professional accountants to regulate in accordance with the Law. There are approximately 20-30 internationally Certified Professional Accountants in Afghanistan, the majority of which are foreign nationals from surrounding countries. There are approximately 16 Audit firms registered with AISA but not all are operating and the professional status of these employees is questionable given that the registration process with AISA does not require a screening process for qualification, certification or competencies. The registered audit firms do include very small local branches of large international accounting firms. These are normally staffed with nationals from neighboring countries. There are approximately 50 Certified Accounting Technicians (i.e. Bookkeepers) in Afghanistan and a possibility of an additional 20 successful Graduates from the December 2009 Association of Chartered Certified Accountants (ACCA) CAT exams. The CAT program is at Bookkeeper level (rather than professional level). They do

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<sup>4</sup> With respect to the requirement for compliance with the Financial Reporting (IFRS Framework), Statutory Audit requirement and Audit Framework (ISA), appointment procedures for Independent Auditor and Professional Qualification of Auditor

<sup>5</sup> 1991 and subsequently amended in 2005

not have the capacity to deliver the International Financial Reporting Standards (IFRS) Accounting Framework nor the International Standards of Auditing (ISA) Audit Framework.

**(C) National Certification Curriculum and Education for Professional Accountants and Auditors**

17. An Internationally recognized Accountancy Profession requires a Professional Education Curriculum and a Certification Program that complies with the international Education Standards (IES) of IFAC. Core to IFAC requirements is an education curriculum that embodies the IFRS Financial Framework, the ISA Audit Framework and an IFAC acceptable Code of Ethics for Professional Accountants and Auditors. Afghanistan's national university curriculum does not address professional accounting or accounting technician needs. For example, the curriculum does not include IFRS, ISA or Code of Ethics.
18. There are, however, two private institutions (Baktar University and Kardan Institute of Higher Education) providing education for the ACCA Certified Accounting Technician (CAT) curriculum. Certification examinations are conducted by the ACCA, UK. The CAT certification program consists of 10 certifying examinations. A successful graduate may transfer to the Professional Accountant 14 examination curriculum with exemptions from the first 3 Paper examinations. There are approximately 350 students currently registered with the CAT program in Afghanistan. Approximately 50 students have graduated through the CAT program to date. To qualify though, the ACCA Professional Curriculum requires an additional 11 examinations (Papers 4 to 14) and will require an additional 2 to 3 years further studies, in addition to the 2 to 3 years CAT qualification program. Baktar University and Kardan Institute commenced offering the ACCA professional curriculum education program in 2008. These institutions, however, have limited resources and expertise to provide efficient professional accounting education programs in addition to their non accounting program portfolio and this has been reflected in poor examination results to date in the CAT program.
19. The branches of International Audit Practice firms in Kabul, particularly KPMG, sponsor their Afghanistan accounting student employees through CAT and Professional ACCA examination programs. However, total sponsored student numbers are relatively low and are unlikely to impact on sustainable capacity building over the medium term.
20. The DAB is currently in the process of establishing an Institute for Banking with funding from the Harakat Project. Although the institute will offer short job specific training programs with an accounting component where relevant, there are no plans to offer professional accounting education. Harakat are considering a funding proposal for the establishment of a School for Accounting Studies at the American University of Afghanistan. However the project proposal document was not available to evaluate its alignment to the proposed National Accounting Reform Strategy with respect to an international curriculum and education program.

## Part II: Proposed Accounting Reform Policies of the ROSC Report of February 2009 and Clarification of Key Policy Recommendations

### (A) Summary of Reform Recommendations from the ROSC Report (2009)

21. Table 1 contains the key policy recommendations of the ROSC Report:

**Table 1: World Bank ROSC Recommendations**

ROSC Recommendation	Description
<i>Form a steering committee, led by the government, to coordinate the set up of the profession</i>	A National Steering Committee should be established to coordinate the accounting/auditing reform process including the development of a detailed country action plan that sets clearly sequenced key action and allocates responsibilities for implementation.
<i>Focus on education and training in accounting and auditing from University level upwards</i>	A large scale government led project on education and training in Accounting and Auditing must be established to effect reform at universities and colleges to include curriculum reform, provision of relevant up to date text books, copies of IFRS and ISA and training-of-trainer programs on practical application of IFRS and ISA.
<i>Establish the Institute of Accountants and Auditors, Afghanistan (IAAA) and the Temporary Board under it to govern the IAAA</i>	A Professional Accountancy Institute (Institute of Accountants and Auditors of Afghanistan IAAA) should be established as a self regulating independent professional organization under the coordination of the Ministry of Finance. The Draft Law on Accounting and Auditing, drafted by the" USAID funded Capacity Development Project – Private Sector Accounting Reform project" should be adopted and this defines the proposed legal status, structure, duties and responsibilities of the proposed new institute of Accountants and Auditors.
<i>Make all laws that impact financial reporting consistent</i>	Develop an accounting and audit law to bring greater consistency on
<i>Establish an Accounting and Auditing Board</i>	A Government controlled "Audit Regulation Board" or as they are more commonly known internationally "Quality Oversight Board" (QOB) should be established within the Ministry of Finance with responsibilities including, but not limited to, the Licensing of Auditors and the regulation of auditors in practice. This report proposes that this initiative is premature at this stage and should be deferred until the Institute of Accountants and Auditors is firmly established and auditing capacity has been developed through the certification and licensing program prescribed in reform legislation.

### (B) Clarification of Key Policy issues fundamental to the ROSC Reform Recommendations

22. Two key policy issues were not adequately addressed in the ROSC Report but are fundamental to the success of the entire accounting reform process. These are:

#### B.1. National Accounting Curriculum for certification of Accountants and Auditors

23. Afghanistan must adopt an internationally recognized curriculum, conforming to international education standards of the International Federation of Accountants (IFAC), incorporating the IFRS and ISA accounting and auditing frameworks and an internationally acceptable Code of Professional Ethics for accountants and auditors. The curriculum and the certification of the curriculum are key cornerstones of accounting reform.

*Issues in Curriculum Selection in Afghanistan*

24. There are several important issues to consider when selecting the national accounting curriculum for Afghanistan:

- Whether to use English or Dari/Pashto;
- The availability of curriculum specific education text books;
- The availability of Dari/Pashto translated and continuously updated versions of the International Financial Reporting Standards (IFRS) and International Auditing Standards (ISA). There are over 30 amended and new IFRS's coming into effect this year (2010) alone;
- In-country professional capacity to periodically review and update the curriculum for the continually changing international business, accounting /auditing environment;
- In-country professional capacity to review and adapt the accounting and auditing education text books for necessary changes in curriculum;
- In-country capacity to deliver a local language international standard curriculum education program in the short, medium and long term;
- In-country capacity to develop and administer an effective professional certification examination program;
- International recognition of curriculum, especially by the International Federation of Accountants (IFAC);
- Opportunity for mutual recognition of Curriculum and Certification program with the Accounting/Auditing Professions in neighboring countries to promote future cooperation with these Professions.

*Proposed Approach on the National Curriculum*

25. The Association of Chartered Certified Accountants (ACCA, UK) curriculum is proposed for adoption in Afghanistan as national curriculum for the certification of Professional Accountants and auditors. This is based on the following rationale:

- The ACCA (UK) curriculum has been developed for international adoption and allows for individual countries to implant their own national components with respect to national law and taxation;
- The ACCA is recognized in over 130 countries worldwide;
- The ACCA curriculum is reviewed every 5 years and updated to accommodate changes in the international accounting/auditing environment. This avoids the need for developing economies with limited accounting professional resources, to undertake the required periodic reviews and revisions;
- The ACCA is active and recognized with many professional members in the region for example Pakistan and India;
- The ACCA is well recognized as a desirable qualification in Afghanistan with approximately 350 students currently registered for the Certified Accounting Technician (CAT) program of the ACCA and approximately 20 currently pursuing the full ACCA Professional Curriculum;
- There are several ACCA accredited publishing houses in UK providing up to date curriculum specific education text Books for each subject in the curriculum. These text books are currently available from a publishing source in Pakistan who has a license to publish and distribute from one of the reputable publishing houses in the UK (BPP). Students in Afghanistan are currently using these text books to prepare for the ACCA and CAT examinations;

- The UK text book publishers continuously update their Text Books to align with changes in the ACCA curriculum. This updating facility avoids the need for individual countries, with limited professional capacity, to undertake this task.

*Proposed Level of Curriculum Adoption*

26. Partial adoption of the ACCA curriculum is proposed for Afghanistan in the short to medium term with full adoption in the longer term. Successful examinees will not be recognized as Professional Accounting Members of ACCA but will be recognized as Professional Accounting Members of an Institute of Accountants and Auditors of Afghanistan. Successful graduates who individually pursue and complete the remaining papers of ACCA will be recognized as ACCA (UK) Professional Accountants in addition to their status of Professional Accountant member of the Afghanistan Institute of Accountants/Auditors.
27. The ACCA curriculum is divided into 14 examination subjects, Papers 1 to 14, subdivided into 3 levels, Level 1, 2 and 3. It is suggested that Afghanistan, for now, adopt the first 2 levels (9 Papers) as the Certification Curriculum for the title of Certified Professional Accountant Afghanistan and an additional Paper (Advanced Audit and Assurance) for the title of Certified Professional Auditor.
28. The rationale for partial adoption is that the higher level curriculum papers address the sophisticated accounting/auditing needs of sophisticated capital market economies and are not essential to meet the accounting and auditing needs of emerging economies like Afghanistan. This partial adoption process has been successfully used by other developing economies. Country Institutes of Professional Accountants adopting this approach have been recognized by the International Federation of Accountants (IFAC) and accepted as members of IFAC.
29. Partial adoption would provide an opportunity to fast track capacity development. Successful Certified Accounting Technician (CAT) graduates in Afghanistan (estimated at approximately 50 at present with an additional 20 or more expected to have successfully passed the qualifying examinations last December-results due shortly) would be exempt from 3 of the 9 paper Professional curriculum and thus motivated to complete the partial curriculum with only 6 additional papers to complete. A full 14 paper curriculum would broaden the gap between CAT and ACCA to 11 additional papers which will require a considerably longer personal commitment and investment of money and time.

*Proposed Language of Curriculum*

30. It is proposed that English be the language for education and examination in the short to medium term. Once accounting capacity through English language education and certification has been developed, these resources will facilitate conversion to local language in the longer term. English language education and examination is proposed for the following reasons:
  - Afghanistan currently does not have the accounting/auditing capacity to develop local language educational text books incorporating the IFRS Accounting Framework, the ISA Auditing Framework and an internationally recognized Code of Ethics for professional accountants and auditors.
  - There is no capacity to deliver local language examinations to an internationally acceptable standard;
  - Available ACCA curriculum specific text books are not available in Dari or Pashto;
  - The full IFRS and ISA framework material is not available in Dari or Pashto;
  - The international IFAC Code of Ethics or an equivalent is not currently available in Dari or Pashto.

*Proposed Policy on Certification of Curriculum*

31. It is proposed to use the existing International ACCA examination structure for papers in the range 1 to 9 (except for Law and Taxation, which will be developed and examined locally). An additional Paper (Advanced Audit and Assurance) will be required to qualify for Audit License in Afghanistan. Students will sit the ACCA examinations, the scripts will be marked and moderated by ACCA and results will be issued directly by ACCA. ACCA offers this examination process in 130 countries worldwide and this facility is currently available in Afghanistan with the cooperation of the British Council. When students have successfully completed the curriculum up to Paper 9 inclusive, they would apply to the Institute of Accountants and Auditors, Afghanistan for membership as Professional Accountants (additional Paper, Advanced Audit and Assurance will qualify to apply for Audit License).
32. As stated earlier, Afghanistan does not and will not have, in the short to medium term, the capacity to deliver this facility at internationally recognized standards. This can be addressed in the longer term, if so desired. This partial adoption process has been successfully used by other developing economies and their national Institutes of Accountants and Auditors have become members of IFAC with this partial adoption policy. This membership of IFAC is the yardstick for International recognition.

## Part III: Proposed National Accounting Reform Strategy for Implementation of the ROSC Report Policy Recommendations

### Objective of National Accounting Reform

33. The overriding objective is to support the creation of an investor friendly environment in Afghanistan with respect to financial reporting/audit that is also in accordance with International IFRS and ISA Frameworks. Building investor confidence in Afghan financial reporting/audit will require a) a legal system that ensures compliance with the International Financial Reporting and Auditing Frameworks, b) an accounting and audit profession whose members have internationally proven competencies and capabilities and c) a regulatory authority of international standing, i.e. an Institute of Accountants and Auditors with membership of the International Federation of Accountants (IFAC). These 3 requirements are addressed in this proposed national accounting reform strategy as Components I, II and III. The 3 Components could be implemented individually by different agencies or collectively by a single agency. All three constitute the overall national strategy and should be approved and their implementation coordinated by a single body, i.e. a National Steering Committee under the coordination of the Ministry of Finance. All 3 components should ideally be implemented simultaneously as a successful outcome on all 3 components will be required to affect a successful national reform process.

### Proposed National Accounting Reform Strategy

34. The proposed national Accounting Strategy would address the 3 core areas of necessary reform i.e. Legal, Regulation and Capacity, under 3 separate Components:
- **Component I:** (Legal) Introduce a New Law on Accounting and Auditing (LAA);
  - **Component II:** (Regulation) Establish an Institute of Accountants and Auditors, Afghanistan (IAAA);
  - **Component III:** (Capacity) Establish a Specialized School of Accounting (SoA).
35. A National Steering Committee (NSC) should be established under the Ministry of Finance to ensure that the 3 Components are adequately resourced and to effectively coordinate their successful delivery. All Components should be implemented simultaneously in order to achieve the overall reform objective. The NSC members would be ambassadors for the national accounting reform strategy and would work to build public awareness and support for the reform process. The members of the NSC should ideally be drawn from GIROA, the banking sector, the accounting profession and Chamber of Commerce. This model for accounting reform has been successfully used in many countries in past few decades to affect their national accounting reform objectives.

#### **Component I: Legal Reform – Introduce a New Law on Accounting and Auditing**

36. The existing legislation in Afghanistan is deficient with respect to a legislated IFRS Financial Reporting Framework, an ISA Auditing Framework and a regulatory authority to certify and regulate an accounting and auditing profession to internationally acceptable standards. A new law on accounting and auditing must be introduced to address these deficiencies.
37. Existing legislation will need to be amended to harmonize with the proposed new Law. The Minister of Finance, through the National Steering Committee should ideally sponsor this Law through to final enactment.

*Functions of new Law on Accounting and Auditing*

38. The law, in addition to the regulation of Financial Reporting and Statutory Audit, would recognize and empower the necessary regulatory authority (i.e. the National Institute of Accountants and Auditors) and would prescribe all policies fundamental to the certification and regulation activities/responsibilities of the Authority.
39. Core issues that should be addressed by the law include:
- Stipulation of Afghanistan’s accounting and auditing Framework i.e. IFRS and ISA;
  - Prescribe the lead time required to progress from partial to full IFRS compliance;
  - Prescribe the entity group that must comply with the IFRS framework as well as the group who must be subject to Statutory Audit;
  - Prescribe the required accounting records to be maintained and filing dates;
  - Define the accounting and auditing regulation process;
  - Recognize an Institute of Accountants and Auditors as industry regulator;
  - Prescribe the requirements for qualification and licensing of Auditors;
  - Prescribe penal provisions for non compliance with the LAA;
  - The Law may prescribe the actual curriculum and certification program to be adopted nationally i.e. ACCA 9 Papers for Professional Accountant and the additional Paper “Advanced Audit and Assurance” for audit license. Alternatively, this curriculum adoption and certification policy may be incorporated in the operating Policies of the Institute;
  - Prescribe the duties and responsibilities of the institute of accountants and auditors;
  - Prescribe the composition of the founding council of the institute and the subsequent election and composition of the permanent council when the establishment of the institute has been successfully achieved;
40. The introduction of the LAA would involve a process requiring approximately 18 to 24 months from the development stage through to final enactment. It determines the framework within which the individual components must be designed and managed to fit the whole reform process. The ROSC Report recommended that the Draft Law prepared by the USAID CDP Project in 2008 should be considered when drafting the new Law. A project description for Component I together with the CDP Draft Law is attached in the appendix.

***Component II: Accounting and Auditing Regulation – Establish Institute of Accountants and Auditors***

41. The ROSC report was very specific in its recommendations with respect to the immediate establishment of an Institute of Accountants and Auditors. At the World Bank ROSC Workshop held in September 2008, two different models were discussed with respect to the establishment of the first Institute of accountants and auditors in Afghanistan.
- **Proposed model 1:** The Institute should be established initially within the Ministry of Finance with private sector participation in the governing board. Once the Institute becomes efficiently functioning and populated with Afghan qualified Professional Accountants, it should become a self regulating independent professional organization;
  - **Proposed model 2:** Establish the Institute in the private sector as a self regulating, independent Professional organization, but, under the coordination of the Ministry of Finance. This was the recommendation of the CDP project.



42. The general consensus, subsequently supported also by the ROSC Report was the second option – i.e. the creation of a private sector, self regulating, independent Professional Organization under the coordination of the Ministry of Finance.
43. The duties, responsibilities and governing structure of the Institute of Accountants and Auditors, Afghanistan, would be prescribed in the law on accounting and auditing. The Law would prescribe the formation of a 12 to 14 member Temporary Governing Body to guide the establishment and operations of the Institute until sufficient professional capacity had been certified to elect a Permanent Governing Body. The composition of the Temporary and Permanent Governing Bodies would be prescribed by the Law on Accounting and Auditing to ensure that it is representative of all relevant stakeholders in addition to the accounting professionals.
44. Duties, responsibilities and functions of the Institute would include:
- Adoption of the ACCA curriculum and examination process for certification of chartered accountants and auditors in Afghanistan;
  - Monitoring practical experience requirements for audit license as prescribed by Law on Accounting and Auditing;
  - Issue of audit license and maintenance of register of audit licenses for public inspection (the Law on Accounting and Auditing could prescribe that the MOF should approve license applications recommended by the Institute as an additional control mechanism on this important function);
  - Monitor compliance of professional members with the code of professional ethics prescribed in the Law;
  - Adopt, deliver and enforce a continuing professional education (CPE) program for continuing membership of the Institute;
  - Provide technical support to members in entities and in practice with respect to IFRS and ISA and other technical areas;
  - Acquire and distribute to all members up to date IFRS, ISA and code of ethics, together with amendments, practice and guidance notes;
  - Organize seminars, workshops and publications for public and professional participation and consumption with respect to relevant international and national developments;
  - Develop a curriculum for national taxation and national legislation for inclusion in certification curriculum for Professional Accountants and Auditors;
  - Develop and administer examinations for national taxation and relevant legislation;
  - Monitor and regulate auditors in the performance of their statutory audit work program (audit quality assurance reviews);
  - Obtain and retain current membership of IFAC.
45. A potential obstacle could be resistance to and lack of capacity at entity level to apply/comply with the IFRS reporting framework in the short term. This has been a problem observed in other similar reform initiatives in the past. The common solution has been the development of training modules on the practical application of IFRS and the delivery of training to entity accounting personnel. The Institute of Accountants and Auditors would be tasked to develop and deliver this training in the short term. This would present the ideal opportunity to launch the newly established Institute into the public domain.
46. The successful establishment of a functioning Institute of Accountants and Auditors would require a timeframe of approximately 12 months. This would allow time to undertake necessary institute development activities including development of a constitution, by-laws, operating policies and procedures, legal registration, office accommodation, staff recruitment and

training, entity training in practical IFRS etc. The Institute should ideally be established when application for IFAC membership is approved.

### ***Component III: Accounting and Auditing Capacity Building – Establish Specialized School of Accounting***

47. The new law on accounting and Auditing would ideally be enacted at latest 24 months from start of the reform initiative. Professional capacity (i.e. certified professional accountants and auditors) should ideally be in place at the end of 2 years in order to facilitate compliance with the Law.
48. The Institute of Accountants and Auditors should be a functioning authority within 1 year of the commencement of the accounting reform initiative. Population of the Institute by professional accountants should be a priority in order to ensure self sustainability beyond the first year of donor support.
49. The National Accounting Reform Strategy must prioritize the creation of professional capacity in the short term. This has been a major issue in similar reform programs in other countries and a common solution adopted was the establishment of a specialized School of Accounting, focused solely on the accounting and auditing Profession. This is also proposed for Afghanistan. The first output of Professional Accountants should occur within 12 months from start up. The normal output cycle will be 2 years but there are sufficient ACCA Professional Curriculum students in Afghanistan (20 or more) mid way through the proposed ACCA 9 Paper Certification program proposed for Afghanistan to enable full certification within a further 12 months of study at the School of Accounting.
50. The alternative route of curriculum reform at national university is a long term solution only, as experience internationally has demonstrated that the curriculum reform process to adoption typically takes 2 years. After implementation, the first graduate output will be a further 3 to 4 years. IFAC International Education Standards prescribe the subsequent (to university graduation) independent certification by the Institute of Accountants and Auditors of graduates capabilities and competencies before acceptance as professional members of the Institute. This process will typically take a further year to complete. This route will have first roll out of professional accountants only after 6 to 7 years from start up of reform process. Technical support from the International Experts at the School of Accounting should assist the University with curriculum reform in order for the latter to input to capacity development in the Accounting Profession in the long term.
51. The Private College(s) in Afghanistan that offer CAT and in one case, the Professional ACCA curriculum, offer these as one only in a wide portfolio of course offerings. Accounting education is not their core business. With limited financial and teaching resources, the student pass rate in CAT and ACCA professional curriculum have been low to date. Technical support from the International Experts at the School of Accounting should assist the Colleges in the short term with Training of Trainers program and Education Models to improve efficiency and provide CAT graduate input to the School of Accounting.
52. It is proposed that a donor funded School of Accounting be established. This should be supported by international experts to begin with. The School would adopt the international model with respect to education delivery and management policies. Initial student input would target the CAT Graduates and ACCA professional ACCA curriculum students in Afghanistan (approximately 50 to 70 CAT graduates and 20 professional ACCA curriculum students currently in Afghanistan).
53. The School would adopt the ACCA Curriculum which is adopted by the Institute as the National Professional Accountants and Auditors Curriculum (Papers 1 to 9 for Professional accountant and the additional Paper, Advanced Audit and Assurance, for audit license). School students would sit the ACCA examinations which are currently administered through British Council, Afghanistan. First roll out of Professional accountants from the School should commence after 1st year of operations (from current body of part qualified ACCA curriculum

students). The normal cycle for qualification will be 2 years. Counterpart lecturing staff would be recruited at commencement of Project in order to facilitate successful localization at end of 2nd year of operations. The School would assist the National University with Curriculum Reform and will deliver Training of Trainers (TOT) programs for private college lecturers to enhance their capacity to contribute to accounting capacity development in the medium to long term. The successful establishment and localization of the School will typically require the input of 3 internationally experienced Accounting Educators for a 2 to 2, 5 year period.

54. At the end of 2 years of operations, the School will become an operating unit of the Institute of Accountants and Auditors. In countries where the certification of Examinations is administered by the national Institute of Accountants and Auditors education of curriculum must be separate from the Institute to maintain the integrity of the examinations. In Afghanistan, the certification examinations are independent from the institute (ACCA direct examination) and, therefore, the education process can come under direct Institute management with no risk of conflict of interest. The institute will utilize idle/surplus capacity of the School resources to deliver fee paying workshops, seminars, training programs etc to assist with the goal of a self financing independent Institute. This is a prerequisite of membership of IFAC.

## Appendix

### *Component I: Develop a New Law on Accounting and Auditing*

#### Introduction

1. The ROSC Report describes the introduction of a new Law on Accounting and Auditing as the cornerstone of the national accounting reform process. The Law would prescribe the entire cycle from the International IFRS Financial Reporting Framework, the ISA Audit framework and the Licensing and Regulation of Professional Accountants and Auditors.

#### Objective

2. Afghanistan's existing legislative framework for corporations does not have the necessary provisions required to ensure transparency in financial reporting. The presence of a financial reporting system that enables investors and providers of capital to evaluate financial investment risk and to monitor efficiency of investments is necessary condition for financial market development. The objective of this legal reform initiative is to prescribe the framework for Financial Reporting and Auditing and Regulation of Accounting and Auditing in accordance with best international practice.

#### Project Description

3. This component/project would develop a Draft Law on Accounting and Auditing, under the direction of the National Steering Committee for Accounting Reform to be chaired by an appointee designated by the Minister of Finance.
4. The project would coordinate with the donor(s)/organization responsible for the establishment of the Institute of Accountants and Auditors as well as with all relevant stakeholders to develop a comprehensive Law to effect and sustain National Accounting Reform in Afghanistan.
5. In drafting the Law, the Project will draw on the experiences of other countries that have developed similar reform legislation in the recent past, e.g. Azerbaijan, China, Armenia, Albania, Serbia, Mongolia, Montenegro etc. The USAID funded CDP Project presented a Draft Law on Accounting and Auditing to the ROSC Report team in 2008 and this was considered favorably by the Team with respect to the policy issues contained therein (Draft Law on Accounting and Auditing attached as Attachment A).
6. The Project will review existing relevant legislation in Afghanistan (specifically but not limited to, the Commercial Code of 1955 and the Law of Corporations and Limited Liability Companies) and propose amendments required to harmonize with the new Proposed Law in Accounting and Auditing.
7. The Ministry of Finance should sponsor this proposed new Law through to enactment.

#### Afghanization

8. This component will set the stage for the delivery of the National Accounting Reform Strategy. A key component of the legal reform will be the development of technical policies for prescription within the Law, i.e. IFRS Reporting base (full or partial), ISA base, target group subject to legislation, structure, duties, responsibilities and policies for an independent Regulatory body, the Institute of Accountants and Auditors etc.

#### Project Tasks

9. Develop and enact a new Law on Accounting and Auditing in order to:

- Establish the framework for Financial Reporting in the Private Sector in accordance with International Financial Reporting Standards;
- Prescribe the Certification and Licensing requirements for Professional Accountants and Auditors;
- Delegate the regulation of Accountants and Auditors to an Institute of Accountants and Auditors;
- Prescribe the composition of the Governing Body of the Institute;
- Prescribe the broad functions, duties and responsibilities of the Institute ;
- Prescribe penalties for non compliance with this legislation.

10. Amend relevant current legislation to harmonize with proposed new legislation.

### **Process**

11. Engage with all relevant stakeholders (Government, Accounting professionals, Banking sector, Insurance sector, corporate sector, Chamber of Commerce and others) and agree on all Policy issues for incorporation into the Law. Key Policy issues will include:

- Adoption of IFRS Financial Reporting Framework
- Level of adoption of IFRS Framework in the short, medium and long term (statistical analysis of entities registered with AISA required to match legal requirements in short to medium term with available supply of capacity to comply)
- Target group for IFRS compliance (full and/or partial) in short, medium and long term
- Adoption of ISA audit framework
- Target group for Statutory Audit requirement
- Education Curriculum, Certification program and Practical Experience requirements for licensing of Auditors
- Audit Licensing process and authority
- Audit license process for foreign nationals/firms
- Delegation of Regulation of Accounting and Auditing Profession to an independent Institute of Accountants and Auditors
- Composition of and appointment of governing Body/Council of Institute of Accountants and Auditors in the development stage; hand over process to Permanent Council when established and composition of and appointment of permanent Council members.
- Core duties, responsibilities and powers of the Institute of Accountants and Auditors.
- Financial records to be maintained by entities, deadlines for financial reporting and timelines for closing and keeping of financial records.

12. Review and propose amendments of existing legislation to harmonize with proposed new legislation, specifically but not limited to – IFRS reporting framework, statutory audit, qualifications and independence of statutory auditor, filing of financial reports etc

### **Expertise Required**

13. The project process will require 2 areas of technical input;

- International Accounting and auditing expertise to develop, in cooperation with relevant stakeholders, the key policy issues to be incorporated in the provisions of the Law. Critical to

the success of this component is the recruitment of a suitably qualified (recently qualified or partially qualified ACCA) local counterpart to work with the international consultant. This will provide critical expert input to the new Institute of Accountants and Auditors with respect to policy reviews and amendments in the medium to long term.

- Legal expertise to draft the legislation and process through to final enactment.

Estimated Duration of Technical Expertise:

- Accounting and Auditing specialist: To develop key policies, negotiation with relevant stakeholders and final approval by National Steering Committee - approximately 3 months.
- Legal Expertise: Difficult to estimate except to state that the process from development of a draft, translation and distribution for discussion, incorporation of feedback from discussion, translation, approval and final enactment typically has taken a period of 18 months in other reform initiatives. The EGGI Project Legal experts are better positioned to provide an estimate for the required time frame for the presence of a Legal expert on the ground during the estimated 18 month period from drafting to final enactment of the Law. This also applies with respect to the legal expertise input required to review and amend existing legislation to harmonize with the proposed new Law. A tentative timeframe has been entered in the benchmark table below, subject to EGGI legal team review and correction.

**Benchmarks for Component 1 – by Month**

		Who	Start month	End month
A	Technical Policies for incorporation in Law on Accounting and Auditing approved by National Steering Committee	Accounting consultant plus counterpart	1	3
A.1	Target group of “public interest entities” defined and proposed for legal regulation with respect to IFRS Financial reporting and Auditing (short , medium and long term – statistical analysis of AISA records of entity Capital, Turnover and number of Employees)		1	2
A.2	Proposed level/extent of IFRS compliance to be regulated in short, medium and long term (Full compliance; core IFRS, IFRS for SMEs?)		1	2
A.3	Proposed Curriculum, Certification and Practical Experience requirement for licensing of Auditors agreed with Institute Establishment Project		1	1
A.4	Proposed duties and responsibilities for Institute of Accountants and Auditors agreed with Institute Establishment Project		1	1
A.5	Comprehensive Policy report approved by National Steering Committee		3	3
B	Draft Law on Accounting and Auditing approved by National Steering Committee and handed off to Minister of Finance for sponsoring through to enactment	Legal consultant	2	7
B.1	Complete a review of similar legislation in other relevant countries and propose a structure with respect to what policies should be legislated versus policies which should be incorporated in the constitution, bylaws and policies of the Institute of Accountants and Auditors.		2	3
B.2	Prepare Draft Law incorporating the approved Policy Report of the National Steering Committee (A.5 above)		4	5
B.3	Prepare final approved (National Steering Committee) Draft Law to Minister of Finance for processing through to enactment		5	6
C	Review existing legislation and propose/draft amendments to harmonize with new proposed Law on Accounting and Auditing		7	9

## **Draft Law on Accounting and Auditing Developed/Proposed by the “Capacity Development Project – Private Sector Accounting Reform”**

### **LAW ON ACCOUNTING AND AUDITING:**

#### **BASIC PROVISIONS**

##### **1. General Provisions**

###### **Article 1**

- (1) This Law regulates the conditions and the manner of maintaining business books and preparing financial statements (hereinafter referred to as: accounting), as well as the conditions and the manner of performing audits of financial statements (hereinafter referred to as: auditing);
- (2) Provisions of this Law shall apply to: business organizations, non-governmental organizations, and Legal Persons, apart from the entities that are financed from the budget and non-budget funds (hereinafter referred to as: legal persons).

##### **2. Terminology**

###### **Article 2**

Terms used in this Law have the following meanings:

- 1) IAS means International Accounting Standards as promulgated by the International Accounting Standards Board (IASB).
- 2) IFRS means International Financial Reporting Standards
- 3) ISA means International Standards of Auditing
- 4) Code of Ethics means the Code established for professional accountants by IFAC.
- 5) Self-regulation means a regulatory procedure whereby the profession of accountants and auditors organized in associations regulate and promote their objectives through:
  - Adoption and implementation of a code of ethics,
  - Implementation of accounting and auditing standards and instructions,
  - Regulation of disciplinary actions,
  - Organization of continuing professional educational programs and other training programs.
- 6) Accounting Technician means a qualified person who maintains business books, prepares financial statements for SMEs, and under supervision of Professional Accountant, for larger organizations.
- 7) Accountant means a qualified person recording financial transactions, preparing and analyzing financial statements.
- 8) Auditor means an Accountant certified by an organization authorized under this law and licensed to perform audits of financial statements.
- 9) Accrual accounting means a basis of accounting under which transactions and events are recognized.
- 10) Financial statements, in accordance with IAS/IFRS, are:

- Balance sheet,
  - Income statement,
  - Statement of equity,
  - Cash flow statement,
  - Notes to the Financial Statements.
- 11) Financial reports are a set of Financial Statements and other supporting reports that might include management comments, auditor's opinion, and other documents.
- 12) The Institute of Accountants & Auditors of Afghanistan means a self-regulating non-governmental professional organization, head quartered in Kabul.
- 13) Legal Persons in the context of this law means both Public and Private Companies limited by shares or by guarantee.

## **FINANCIAL STATEMENTS AND STANDARDS:**

### **Article 3**

- (1) Financial statements shall be prepared in compliance with International Financial Reporting Standards (IFRS) as promulgated by the International ..... and adopted by the Institute of Accountants and Auditors of Afghanistan (hereinafter referred to as: the Institute).
- (2) Audits of financial statements and conclusions shall be conducted in accordance with International Standards of Audit (ISA) that have been declared by the International Auditing Practice Committee (IAPC) as a body of International Federation of Accountants (IFAC) and adopted by the Institute.

## **ACCOUNTING AND BOOKKEEPING:**

### **3. Business Books**

#### **Article 4**

- (1) Business books shall be maintained on a double entry bookkeeping system
- (2) Basic business books are: the general ledger and ancillary books.
- (3) Legal person shall be obliged to record all transactions using bookkeeping according to the nature and volume of operations.
- (4) Accounting records must be based on appropriate accounting documents, in accordance with rules of proper bookkeeping. Accounting records must reflect true financial position and results of operations.
- (5) Business books may be maintained in paper, microfilm, or electronic form.

### **4. Accrual or Cash Basis of Accounting:**

#### **Article 5 (optional)**

- (1) Legal persons having more than \$XXX of annual revenue shall be obliged to employ the accrual basis of accounting when preparing statements of their annual revenue.

- (2) Legal persons having less than \$XXX of annual revenue, i.e. small and medium enterprises may employ either the accrual basis of accounting or cash basis of accounting, applying simplified accounting regulations.

## **5. Preparing and Submitting Financial Statements:**

### **Article 6**

- (1) Legal persons shall prepare and submit annual financial statements to the (Central Register at the Commercial Court) by end of the second quarter of the current year for the previous year.
- (2) Legal persons, who are required by the law to provide for audit, shall enclose audit opinions to the financial statements referred to in paragraph 1 of this Article.

## **6. Deadlines and Signing Financial Statements:**

### **Article 7**

- (1) Legal person with annual revenue of above \$XXX shall, apart from the annual financial statements, shall also prepare semi-annual financial statements.
- (2) Financial statements shall be signed by the responsible person determined by the document on the registration of the legal person, as well as by the head of financial or accounting department.

## **7. Presenting Financial Statements:**

### **Article 8**

- (1) Legal person shall be obliged to submit financial statements in written form on request of the organizations authorized by the law.

## **8. Proper Maintaining of Business Books:**

### **Article 9**

- (1) Legal person shall be obliged to properly maintain business books and documents that served as the basis for bookkeeping and accounting software.
- (2) Legal person shall be obliged to appoint a qualified person as the one responsible to maintain business books and prepare financial statements as well as to keep them.

## **9. Closing and Keeping Business Books:**

### **Article 10**

- (1) Legal person shall be obliged to close business books upon the expiry of the business year and keep them within the following deadlines:
  - 1) Annual financial statements and annual calculations of employees' incomes, or original pay rolls for periods, for which annual calculations of incomes signed by employees are not at the disposal, are to be kept 20 years;
  - 2) The general ledger and its correspondent log are to be kept at least ten (10) years, whereas ancillary books and semi-annual accounts are to be kept at least five (5) years;

- 3) Bookkeeping documents on the basis of which the entries were done are to be kept at least five (5) years, whereas sales and controlling slips, ancillary forms and similar documentation, as well as documents that relate to payments operation in an institution that performs such operations are to be kept at least three (3) years;
- 4) Annual and semi-annual accounts, business books, and bookkeeping documents are to be kept in original, including signed documents of salary payments that are to be kept using other means of filing away that are prescribed by the law.

## **AUDIT OF FINANCIAL STATEMENTS**

### **10. Definition**

#### **Article 11**

- (1) An audit is an examination of financial statements for the purpose of expressing an opinion on them, establishing whether they are true and accurate statements of assets, capital, and liabilities as well as of results of operations of legal person, applying the International Standards of Audit and Code of Ethics.

### **11. Obligation of Audit:**

#### **Article 12**

- (1) Audit of financial statements shall be obligatory for joint stock companies, insurance companies, banks and other financial institutions, stock markets and exchange brokers and other legal persons having more than xxxxxx of annual revenue.

### **12. Conditions for Performing an Audit**

#### **Article 13**

- (1) The performance of an audit of financial statements may be done only by an accountant who has successfully completed the final professional certification examinations of a recognized Institute of Accountants, has completed an approved Institute prescribed three year of work experience in auditing, was awarded an audit license by a recognized Institute and is a member in good standing of the Institute of Accountants and Auditors of Afghanistan. Auditors may engage others to assist them with audit procedures provided an auditor adequately supervises their work.
- (2) Auditors may establish a business organization provided that all the authorized persons are licensed auditors.
- (3) Audit may not be done by an auditor:
  - 1) Who is a shareholder, investor or founder of the legal person that is under audit?
  - 2) Who performs accounting operations for the purposes of that legal person, and
  - 3) In other cases prescribed by the Code of Ethics.

### **13. Submitting Financial Statements to State Authorities**

#### **Article 14**

- (1) Legal and natural persons shall be obliged to submit financial statements on request of competent government entities authorized by the law for the purpose of these entities' exercising supervisory function, including tax and statistics authorities.

## 14. Issuing Licenses to Auditors

### Article 15

- (1) The Ministry of Finance shall prescribe the conditions for issuing and revoking licenses to auditors. Licenses are to be issued to those accountants who have certificates issued by the Institute, having not a criminal record at the competent authorities and meeting the conditions prescribed by the Institute.

## 15. Delegation of Public Authorization

### Article 16

- (1) The Institute of Accountants and Auditors of Afghanistan shall be established as a self-regulating, independent professional organization.
- (2) The founders of the Institute are the ..... The Ministry of Finance shall coordinate the establishment of the Institute of Accountants and Auditors of Afghanistan.
- (3) For the purpose of taking preparatory actions for the establishment of the Institute, a transitional governing Board shall be formed, comprising:
  - Seven members appointed from existing international audit firms in Afghanistan
  - One member appointed from the Chamber of Commerce
  - Four other members, one each appointed by:
    - Banking institute of Afghanistan
    - Central Bank of Afghanistan
    - Ministry of Finance of Afghanistan and
    - The Economics/commerce Faculty of University of Kabul, Kardan U, AUAF.
- (4) The transitional governing Board shall elect, from among its members, a Chairman & two Vice-Chairmen who shall be the Executive Committee of the transitional governing Board. The Executive Committee of the transitional governing Board will act on behalf of the Board between Board meetings. They shall report on their activities at each Board meeting. A Secretariat shall be provided for if deemed needed.
- (5) The transitional governing Board shall submit the following documents to the Ministry of Finance by ....enter deadline date (a 12 to 18 month future date):
  - The Constitution
  - By-laws
  - Code of Ethics for professional accountants & auditors
  - Rules of Conduct
  - Certification & Examination Model
  - Financial Statements for the first xxxx months of operation
- (6) The documents referred to in paragraph 5 of this Article must be approved by a majority vote of 7/11 of the transitional governing Board.
- (7) The permanent governing Board of the Institute shall comprise 11-15 Board members elected and/or appointed as follows:

- 6-10 Board members elected from the Institute membership by a simple majority vote of membership, and
  - 5-6 Board members, one each appointed by:
    - a) Central Bank
    - b) Chamber of Commerce
    - c) Ministry of Finance
    - d) Economic Faculty of KABUL University
    - e) Securities Commission (prospectively)
    - f) To be Determined
- (8) Should the documents referred to in paragraph 5 of this Article not be filed with the Ministry of Finance and made in accordance with regulations and IFRS/IAS by xxx date (the deadline date in (5) above), the transitional governing Board shall reconvene and recommend an alternative organizational structure for professional accountants & auditors and the implementation of IAS/IFRS and ISA to the Ministry of Finance.

#### **Article 17**

- (1) The Institute of Accountants & Auditors of Afghanistan shall develop additional standards and instructions to standards of accounting and auditing.
- (2) Members of the Institute, applying the concept of self-regulation, shall be organized in commissions and committees of the Institute and adopt and ensure the application of standards, rules, regulations, and instructions.
- (3) Bases of organization of work and operations, as well as the rights, liabilities and responsibilities of the employees of the Institute shall be regulated in a more detailed manner by a general act. The Institute shall be financed from annual membership fees and other sources.

#### **Article 18**

- (1) The Institute of Accountants and Auditors of Afghanistan shall exercise the following public functions:
  - 1) Adopt and announce IFRS/IAS and determine the date for their application;
  - 2) Adopt and announce International Standards of Audit that are to be implemented in their entirety to the financial statements prepared after xxxx date
  - 3) Adopt and recommend explanations and interpretations to the standards;
  - 4) Issue simplified accounting regulations for small and medium enterprises, following IFRS/IAS principles where applicable.
  - 5) The Institute shall prescribe conditions in respect of education and working experience that applicants must meet to be certified as accounting technicians, accountants and auditors;
  - 6) Establish examination syllabus for accounting technician and accountants for certification purposes. It will ensure the availability of syllabus to applicants and other organizations for the purpose of training the applicants for the exam;
  - 7) Ensure/facilitate adequate availability of education programs for students to prepare for certification examinations.

- 8) Develop explanations of accounting and auditing standards as well as instructions to guide legal persons and government entities and organizations in their use of IFRS/IAS for financial reporting.
  - 9) Maintain a current register of members by category of membership-accounting technician, accountant, licensed auditor;
- (2) Board of Directors of the Institute reports annually to its members on the following operations of the Institute:
- a. audited financial statements,
  - b. membership statistics,
  - c. examination results,
  - d. disciplinary actions,
  - e. future plans, and
  - f. Other operations.
- (3) The report referred to in paragraph 2 of this Article shall be submitted annually to the Ministry of Finance by ....enter date of the current year for the previous year.

## **PENAL PROVISIONS**

### **Article 19**

- (1) A fine To Be Determined, (of ten times to three hundred times the amount of minimal wages in the Islamic Republic of Afghanistan) shall apply to any legal person who commits an offence by not submitting annual financial statements and reports to the Central Register at the Commercial court (or other relevant authority) within the deadlines prescribed in Art. .... of this Law and by not keeping business books within the deadlines prescribed by Article 10.
- (2) For the offence referred to in paragraph 1 of this Article, a fine To Be Determined (of one time to twenty times the amount of minimal wages in the Islamic Republic of Afghanistan) shall apply to the person responsible for it within the legal person.

## **TRANSITIONAL AND CLOSING PROVISIONS**

### **Article 20**

- (1) From (specify a date -January 1, 200X), preparation of financial statements shall be done in accordance with the following IFRS/IAS:...[LIST WHAT ARE REGARDED AS MINIMUM CORE STANDARDS TO INITIATE THE IMPLEMENTATION-IN OTHER WORDS A MANAGEABLE CORE – FOR EXAMPLE BELOW-OR TAKE THE CORE FROM THE SME EXPOSURE DRAFT]
1. IAS Presentation of Financial Statements
  2. IAS Inventories
  3. IAS Cash Flow Statements
  4. IAS Net Profit/Loss for Period, Fundamental Errors and Changes in Accounting Policies
  5. IAS Contingencies and Events Occurring After the Balance Sheet Date
  6. IAS Construction Contracts
  7. IAS Income Taxes
  8. IAS Information Reflecting the Effects of Changing Prices
  9. IAS Property, Plant, and Equipment

10. IAS Leases
11. IAS Revenue
12. IAS Borrowing costs
13. IAS Accounting for Investments
14. IAS Related Business Organizations
15. IAS Accounting for Investments in Related Business Organizations
16. IAS Disclosures in the Financial Statements of Banks and Other Financial Institutions
17. IAS Financial Reporting of Interests in Joint Ventures
18. IAS Intangible assets

#### **Article 21**

- (1) Licenses issued to auditors must be renewed every two years upon proof of meeting education requirements (CPE) and other conditions imposed by the Institute. The Institute shall provide Timely advice to members on these matters.
- (2) The Institute is authorized to issue licenses to foreign accountants and auditors who have been licensed under their national regulations and whose licensing requirements are essentially the same as established in Afghanistan. Such persons shall not be required to submit to a full certification examination in Afghanistan, but they may be required to show through examination or otherwise that they are familiar with relevant Afghanistan laws and regulations.

#### **Article 22**

- (1) This Law shall enter into force on the eighth day after its publication in the “Official Gazette of the Islamic Republic of Afghanistan.

*DRAFT*

## ***Component II: Establishment of a Functioning Independent Regulatory Authority, the Institute of Accountants and Auditors of Afghanistan (IAAA)***

### **Introduction**

1. There has been significant progress, through Donor intervention, in economic and legal reform. There are approximately 10,000 entities registered with AISA and a new Law of Corporations and Limited Liability Companies has been enacted. However, to date, there is no clear legal requirement with respect to International Financial Reporting and International Auditing processes. There are just a handful of qualified professional accountants. There is no Regulatory Authority for the certification of Professional Accountants and Auditors. There is no Authority to regulate the work practices of professional accountants and auditors. In effect, there is no Professional Body of Accountants and Auditors to deliver an accounting reform process when prescribed by proposed new reform legislation. To address these deficiencies, the ROSC Report of 2009 recommended the establishment of a strong Institute of Accountants and Auditors as a self-regulating, independent professional organization under the coordination of the Ministry of Finance.
2. The focus of the National Accounting Reform Process of the ROSC Report has been public sector reform, as it has been in other country reform programs underpinned by similar ROSC initiatives. But, the reality is that the private Sector reform process is targeted at creating regulated accounting and auditing capacity which will serve the Public as well as the Private sector accounting needs.

### **Objective**

3. Legal Reform with respect to Financial Reporting and Auditing is ineffective unless there is an accounting profession empowered and responsible for the implementation of the legal provisions and adequately regulated to facilitate effective compliance.
4. Accounting reform cannot be successfully externalized with respect to gaining recognition and confidence by the international investment and financing community until it is perceived to be regulated to an internationally acceptable standard. This requires an independent self regulating Institute of Professional Accountants and Auditors with international standing and recognition. The benchmark for international recognition is the existence of an Institute of Accountants and Auditors, recognized by IFAC and registered as an Associate Member of IFAC. IFAC membership requires an efficient Institute regulated by a framework of international norms with respect to Policies ranging from Professional Education Curriculum, Certification, Continuing Professional Education, Code of Professional Ethics, Practical Experience, Supervision of Members and Quality Assurance Reviews of members in practice. This Component aims to create such an Institute and to develop a strategy to launch this Institute into the public domain.

### **Project Description**

5. This Component/Project will work under the direction and coordination of the National Steering Committee for Accounting Reform.
6. The Project will establish a fully functioning Institute of Accountants and Auditors, Afghanistan (IAAA) with the necessary policies and processes to effectively regulate the accounting and auditing profession in accordance with the duties and responsibilities contained in the provisions of the new Law on Accounting and Auditing.
7. This will require the development of a Constitution, Bye Laws and operating policies; the legal registration of the Institute; the sourcing, furnishing and equipping of permanent office accommodation; the sourcing and appointment of Governing Body/Council members; the development of a personnel plan and personnel policies; recruitment and training of permanent technical and administration staff and most important, the development of Policies and Processes with respect to Certification, Licensing and Regulation of Professional Accounting and Auditing Members of the Institute. This entire process must be presented for the approval of the National

Steering Committee to ensure harmonization with respect to the national reform strategy. The project will also develop a Business Plan for a minimum of a 5 year period to ensure that the Institute can achieve a position of self financing from membership annual subscriptions, training and publications and thus better ensure the independence of the institute as required by IFAC from its members.

8. A critical success factor of this Project is the early appointment and active participation of the members of the Governing Body/Council of the Institute and the recruitment, participation and training of local counterparts, in this case, proposed administration and technical staff of the new Institute. Early and active participation of these key personnel in the planning and policy formulation stages will help to ensure ownership and commitment to implementation of reforms.
9. The Project, in pursuit of its objective, will draw on the experiences and solutions of other countries who have recently established similar Institutes as part of their national accounting reform initiatives, e.g. Montenegro, Serbia, Mongolia, Albania, Armenia etc.
10. In addition to the establishment of an Institute of Accountants and Auditors, this component will also address the need to empower, in the short term, accounting personnel in entities regulated by new accounting legislation with respect to compliance with the legislated IFRS Financial Reporting Framework. This will be affected by the development of IFRS training modules to be delivered by the new Institute of Accountants and Auditors. This initiative will serve as a very important launch of the new Institute into the public domain and be an integral component of a Public Communication Strategy to be developed by the Project.

### **Project Tasks**

11. Key tasks under this component will include:

- Develop Constitution, By- Laws and rules of conduct within the framework of the structure, duties and responsibilities prescribed in the Law on Accounting and Auditing
- Prepare a policy document for the adoption of a national professional accounting curriculum and examination process for the certification of Professional accountants and auditors. This will conform to what is prescribed in the Law on Accounting and Auditing, as approved by the National Steering Committee. The first 9 Examination Papers of the ACCA with alternative local examination in Law and Accounting (result: 7 Papers examined direct by ACCA and 2 by Local Institute of Accountants and Auditors) will qualify for membership of the Institute of Accountants and Auditors, Afghanistan, as Chartered Accountants, Afghanistan (CA, AF). Audit License requires a further ACCA Paper, Advanced Audit and Assurance;
- Process the standard Letter of Agreement with ACCA re recognition of variant local law and taxation Papers/Examinations. This is necessary to allow successful Paper 9 graduates to proceed, if they so wish, with the remaining 5 Papers/examinations of ACCA and have dual qualifications, CA, AF and ACCA, UK;
- Develop Policy and Procedures for Curriculum and Examination of local Law and Taxation for distribution to education providers;
- Develop Policy of Institute for certification of examinees at various exit points of the ACCA 9 paper Afghanistan Curriculum, e.g. Accounting Technician at end Paper 3; Management Accountant, Afghanistan at end Paper X(to be determined); CA,AF on completion of all 9 Papers; Licensed Auditor at end of 10 Papers;
- Draft Training Contract, Policies and implementation guidelines for the “legislated practical experience requirements” for granting of audit license in Afghanistan, giving due consideration to the limited audit practice experience opportunities currently available in Afghanistan;
- Draft Continuing Professional Education (CPE) Policy and suggested program to accommodate the 9 Paper ACCA certification policy of the Institute (with particular emphasis on addressing relevant components of the ACCA papers 10 to 14 curriculum);

- Draft Policy for adoption of IFAC Code of Ethics for Afghanistan for compliance by Institute members (may be/ should be? Specified in Law on Accounting and Auditing);
- Draft a Quality Assurance Policy and Program for the oversight of Professional Accountants in Public Practice to ensure compliance with global best practices and international quality control standards;
- Process the registration of the IAAA in the relevant ministry or other approved registration body in Afghanistan;
- Draft SOW and Task Descriptions for members of the Temporary Governing Body of the IAAA, in accordance with the relevant prescribed provisions of the Law on Accounting and Auditing;
- Coordinate with national steering committee on the identification, briefing, selection and appointment of the members of the temporary governing body of the IAAA;
- Prepare Business Plan for IAAA for minimum of 2 year period;
- Secure suitable office premises (MOF to provide rent free for specified duration-2 years?), arrange for furnishing and equipment;
- Recruit Institute Administration and Technical support staff as determined by the Organization Chart and the 2 year business plan developed above;
- Empower Institute staff with appropriate training modules (technical and administrative);
- Develop training material for IFRS complete/partial framework prescribed by Law on Accounting and Auditing (training material available for purchases from IASB may need to be modified for better illustration of practical application for Afghanistan trainees);
- Instruct Institute Technical employees on content and delivery process (TOT) of the developed IFRS training modules. These Institute technical persons will deliver training to entity accounting personnel to pave the way for compliance with the new Law on Accounting and Auditing when enacted;
- Communicate with IFAC for associate membership of IFAC;
- Develop a Communication Strategy to launch the Institute of Accountants and Auditors into the Public (Afghanistan public and business environment) domain and internationally – IFRS training delivered to enterprise accounting personnel; Institute Prospectus for distribution to relevant stakeholders, including the corporate entities; links established with Institutes in neighboring countries; visits to education establishments (high schools, universities, colleges etc); etc.

#### **Project Resource Requirements and Estimated Duration**

12. International Accounting Expert for a minimum duration of 14 months but ideally 18 months.
13. Office Accommodation, furnishing and equipment for the Institute (office space for Executive Director and probably 2 technical staff plus International expert: furnished meeting/conference room for Council Meetings; )
14. Funding for Institute Staff for minimum 2 years and Institute running expenses, also for 2 yrs.
15. Stipend for members of Temporary Governing Body/Council?? – Monthly for 2 years for 12 to 14 members?

## Benchmarks

		Start month	End month
A	Institute of Accountants and Auditors registered by due legal process in Afghanistan	1	3
A.1	Constitution, By-Laws, Rules of Conduct for the Institute Drafted	1	2
A.2	Constitution, By-Laws, Rules of Conduct for Institute approved and adopted by Temporary Governing Council of Institute and Registration of Institute completed	3	3
B	Members of Temporary Governing Body of the Institute appointed	1	2
B.1	Scope of Work for members of Temporary Governing Body of Institute drafted and approved by National Steering Committee	1	1
B.2	Source and appoint (with approval of National Steering Committee ) suitable candidates for membership of the Temporary Governing Body/Council from the stakeholder categories prescribed in the Law on Accounting and Auditing	1	2
C	Official Office premises of the Institute of Accountants and Auditors established, equipped and staffed with administration and technical personnel.	3	6
C.1	2 year Business Plan for Institute of Accountants and Auditors approved by Temporary Governing Body of Institute (including Organization Chart, Personnel Plan, Job descriptions etc)	3	4
C.2	Suitable office accommodation secured, furnished and equipped	5	6
C.3	Institute Administration and technical staff recruited	5	6
D	Institute Governing Body to adopt Education curriculum and Certification Policy of the Institute and Letter of Agreement signed with ACCA for local variant paper certification (Tax and Law)	7	9
D.1	Draft education and certification policies for Professional Accountants and Licensing of Auditors developed and approved by Temporary Governing Body, with suitable exit points and certification for lower level qualifications-Accounting Technician and management accountant	7	8
D.2	Quality Assurance Policy and Program for the oversight of Professional Accountants in Public Practice to ensure compliance with global best practices and international quality control standards approved/adopted as policy by Temporary Governing Body.	7	8
D.3	Education and examination policies for local Tax and Law approved by Temporary Governing Body	7	8
D.4	Letter of Agreement signed with ACCA	8	9
E	Application for Associate Membership of IFAC presented to IFAC for consideration	9	10
E.1	Draft Training Contracts and guidelines for practical experience requirements for audit license adopted by Temporary Governing Body	9	9
E.2	Draft Continuing Professional Education (CPE) policy adopted by Temporary Governing Body	9	9
E.3	Proposal to IFAC for associate membership submitted	10	10
F	Technical employees of Institute trained with respect to delivery of IFRS Training Modules to entity accounting personnel	10	13
F.1	Training Modules in IFRS developed	10	11
F.2	Institute Technical Employees instructed in technical content of training modules	12	13
F.3	Technical Employees of Institute to have completed a Training of Trainers program	13	13
G	Communication Strategy for launch of Institute of Accountants and Auditors approved by Temporary Governing Body	14	14

## ***Component III: Establishment of a Specialized School of Accounting in Afghanistan***

### **Introduction**

1. The objective of the School of Accounting is to fast track capacity building in accounting and auditing. It is proposed that the Institute of Accountants and Auditors develop a Certification Policy recognizing and certifying different exit points from the approved education curriculum, e.g. Accounting Technician, Management Accountant, Professional Chartered Accountant and Licensed Auditor. The output from each of the above exit points will equally serve the various accounting capacity needs of the Public Sector as well as the Private Sector.

### **Objective**

2. The proposed legal reform and the establishment of a regulatory Institute of Accountants will, individually and collectively, fail to achieve accounting reform objectives unless measures are introduced to build capacity to populate the institute and capacity to deliver the legally prescribed accounting and auditing framework. There is no solid supply of capacity at present in Afghanistan.
3. The National Accounting Reform strategy proposes the adoption of the ACCA Professional Curriculum and certification process (9 of the ACCA 14 Paper curriculum deemed sufficient for Professional qualification in Afghanistan's current economic climate and an additional Paper, Advanced Auditing an Assurance for Audit License). This Policy decision is deemed necessary to have international recognition in the short to medium term as this model will be readily recognized by IFAC as conforming to the International Education Standards (IES) of IFAC.
4. The National University will require major reform to contribute to capacity building. This is typically a long term process in most universities worldwide with an average lead time of 7 to 10 years from commencement to the completion of at least 2 complete education cycles to be considered for accreditation by an international accounting professional body, the ACCA. The resulting accredited Accounting Degree would still not qualify for Professional Accountant Membership. IFAC recognition would still require further independent examination/certification by the Professional Institute of Accountants and Auditors, Afghanistan (IAAA) or by another surrogate Institute so recognized by IAAA (ACCA). The university will not contribute to Professional Accountant/Auditor capacity development in the short or medium term. Nevertheless, Curriculum reform at universities should be prioritized to contribute to capacity development in the long term.
5. There are several Private Colleges in Afghanistan. These colleges have diverse program offerings and some include accounting programs, specifically, the ACCA Certified Accounting Technician (CAT) program and more recently, the Professional ACCA curriculum. These colleges have limited resources to provide efficient professional accounting education programs in addition to their non accounting program portfolio and the CAT examination results have been poor to date. Like the National University, with some focused expert technical guidance and teacher training, these colleges should contribute more efficiently to professional accounting capacity building in the medium to long term.
6. The objective of the National Accounting Reform strategy is to build Professional Accounting and Auditing capacity in the short term. This is essential to build short term capacity to comply with legal reform and thereby enable international investor confidence in financial reporting in Afghanistan.
7. Short term capacity development should be delivered by the establishment of a specialized School of Accounting. This approach has been successfully adopted in many countries as an integral and pivotal component of their economic reform programs. With a typical 2 year professional certification education cycle (initial student enrollment from successful CAT graduates of which there are approximately 50 to 60 at present in Afghanistan) capacity delivery (Afghan Chartered Accountants) will commence in 2 years time and continue to expand annually thereafter.

## Project Description

8. This Component will require International Donor funding from inception to successful localization. The relevant Donor should specify that this Project work under the direction and coordination of the National Steering Committee for Accounting Reform as this will ensure harmonization with the legal reform and Institutional capacity building components of the national reform strategy.
9. The project will establish a fully functioning School of Accounting modeled on similar specialized Schools in developed as well as developing economies. The ACCA curriculum and certification program is recognized as a certification model in approximately 130 countries worldwide. ACCA is a Global Accounting Body with 130000 members and 360000 students and has a history of 100 years in certification and regulation of Professional Accountants and Auditors. With its long history and large student body, there has evolved a culture of very successful education/certification through a combination of specialized schools of accounting in most of the 130 countries in which ACCA is recognized together with the involvement of specialized ACCA accredited private education publishing entities providing curriculum specific educational text books and study aids. These publishing entities, or rather their education material product are regularly reviewed by ACCA before ACCA will grant accreditation.
10. The global success of the many specialized ACCA focused Schools of Accounting is attributed to a common model employed throughout the schools network. The model components comprise common Policies with respect to education Text Books, Education Delivery, Student Assignment Program, Continuous Assessment for student and lecturer feedback, pre examination revision programs, student evaluation of lecturers. School success and by inference the quality of lecturers are measured by student success rates in the half yearly ACCA examinations. ACCA continuously strives to positively input to improved education delivery by organizing annual symposiums for the lecturers in these Schools of Accounting to promote cross pollination of new ideas across the education spectrum.
11. The School of Accounting in Afghanistan will model itself on these global successful Schools of Accounting in all relevant aspects to ensure a successful capacity development reform initiative with prospects for successful localization after 2 of operations and 2.5 years from initial commencement of Project.

## Project Tasks

12. The School Director will coordinate with National Steering Committee and the national institute to ensure that the certification curriculum is adopted as the core curriculum of the School i.e. The ACCA curriculum, Papers 1 to 9 (with local variant Papers in Tax and Law examined in country and not by ACCA) for Certified Professional Accountant in Afghanistan and the additional ACCA Paper, Advanced Audit and Assurance for Licensed Auditor.
13. The School Director will prepare a 2 year Business Plan for the first complete certification cycle. This is critical to formalize an operational plan for the School and to direct the school from inception to successful localization, both financially and with respect to education delivery. Key Policy issues to be addressed in the plan will include:
  - Source of student intake in short to long term (CAT graduates, and /or University graduates, in short term);
  - Full time (day time classes) or part time (evening classes) in the short term and in the future (influenced by source and employment status of intake);
  - Source of ACCA accredited Text Books (UK sourced or from neighboring countries who have license from international (UK) Publishers to print and distribute locally). This will be an important input to a student Fee Policy targeting a self financing localized School at the end of 2 years of operations;
  - Focus of education program in short to long term? This will be influenced by source of student intake in short to long term (Cat graduates only at start of project will require delivery of only

Papers 4 to 9 as these graduates are exempted from the first 3 to 4 Papers of the ACCA professional curriculum. University Graduate intake will require delivery of all 9 Papers);

- Personnel plan for short to long term – international and counterparts. This will be influenced by source of student intake in short to long term and resulting extent of education program to be delivered to complete the certification of the input;
  - Education and administration facilities required – Lecture rooms, library, computer facilities, office accommodation etc. This will require a study of the long term school structure to ensure capacity to deliver long term;
  - Suitable location for School and ownership status, i.e. purchase, rent or government donated property and impact on long term localized self financing School. Location influenced by employment status of student body – central business district versus outer suburbs.
14. The Business Plan will need to address the issue of ultimate ownership of the School. Normally such a school has no direct ownership connection with the Institute of Accountants and Auditors. This is the case where the Institute directly administers the certification examination process and obviously in this case education delivery must be separate/independent from certification of education. In the case of Afghanistan, as in many other developing economies, certification is delegated to the ACCA. Where this has been the case, the ownership and management of the School is normally passed to the Institute. This an important factor in contributing to a long term financially viable School and Institute as it (once sufficient capacity has been developed) will utilize any spare or idle capacity of the school for fee paying workshops, CPE programs and seminars.
  15. The School Director will design education and education management program and policies with respect to student contact hours, structure of contact hours between delivery and tutorials, structure of student assignment program and tutorials, continuous student assessment program, student study guides, Lecturer Schemes of work, structure and content of revision programs etc. The above constitutes the components of the models which have evolved in successful schools of accountancy education internationally. The model and its components can be imported directly from one of these schools as a culture of cooperation has evolved amongst this school community over the years (fostered by ACCA management).
  16. The School Director would draft Personnel policies - organization chart, job descriptions, and operational policies.
  17. School director would recruit all staff and organize staff workshop to successfully transfer the planned education and administration models and policies and bond the team towards a successful delivery of excellence.
  18. Project would assist national university with curriculum reform.
  19. Project would assist private colleges with development of accounting education strategies and training of trainers
  20. Project would develop and implement a communication strategy to raise the profile of the school and ensure quality student intake for the future.

#### **Project Resource Requirements and Duration**

21. This will depend on scale of operations at start up as proposed in the Business Plan.
22. The project would require an international expert (i.e. professional Accountant, experienced with School of Accounting management). This position will be required for the 2 to 5 year duration from initial planning to localization at the completion of the first certification cycle.
23. Depending on planned start up scale of operations, the project would typically require an additional 2 international accounting professionals with education delivery experience in similar schools internationally. These individuals will also be tasked with counterpart technical training, Training of Trainers for counterparts, private colleges and National University. This technical input will be

required for the 2 years from commencement of education delivery to completion of first certification cycle.

*Local Counterparts and Administration*

24. Local counterparts for each of the international experts and general administration staff, dependent on scale of startup activities.

*Physical Facilities, Furnishing, Equipment and Working Capital;*

25. This would depend on GIROA commitment and contribution to the project (building, furniture and equipment), planned scale of activities in short o medium term and student fee policy in short to medium term.

**Benchmarks**

		Who	Start month	End month
A	Two year Business Plan for School of Accounting approved by National Steering Committee and Donor	International Consultant/Director of School of Accounting		
A.1	Draft proposals presented to Donor and National Steering Committee for discussion – target student body short to long term, nature of education program, i.e. full or part time, size of operations short to long term and physical and manpower requirements, student fee policy options short to long term and funding requirements from start to successful localization		1	1
A.2	Business Plan approved by Donor and Steering Committee		2	2
B	School of Accounting premises secured, furnished , equipped and staff recruitment completed			4
B.1	Suitable premises located/secured (from/through MOF? MOE?)		2	3
B.2	Premises renovated, furnished and equipped		4	5
B.3	Education delivery and management Policies developed		1	4
B.4	Staff recruitment and staff orientation program completed		3	5
C	Education program started			
C.1	Student enrollment finalized and classes started		4	5
D	Communication Strategy approved to raise profile of school to ensure quality student intake in future and to attract future financial support from business community		3	4
E	Letter of Agreement signed with National University and private colleges to commence curriculum reform and delivery of Training Of Trainers (TOT) program.		6	7
F	Completion of first certification cycle of School of Accountancy – first output of Professional Accountants, Afghanistan		6	30