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**REPORTS ON THE OBSERVANCE
OF STANDARDS AND CODES:
ACCOUNTING AND AUDITING**

JULY 14, 2008

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http://www.worldbank.org/ifa/rosc_aa.html

Sarah Lane, M.A.

KSC Research Series

ABSTRACT: The Reports on the Observance of Standards and Codes (ROSC) initiative and two of its twelve policy standards—namely, accounting and auditing (A&A)—are discussed in terms of their purpose and methodology in this overview. Relevant issues are discussed, and guidance on accessing A&A ROSC country reports is offered.

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PN-ADM-032

Purpose: Accounting and Auditing (A&A), under the Market Integrity category, are two of the twelve policy standards of the World Bank/International Monetary Fund (IMF) initiative, Reports on the Observance of Standards and Codes (ROSC). The purpose of these reports is to compare national accounting and auditing standards with that of the International Accounting Standards (IAS)¹ and the International Standards on Auditing (ISA)². The reports also attempt to lay out a country action plan to improve the institutional environment around these accounting and auditing standards. The accounting and auditing modules of the ROSC assessments are carried out by the World Bank.

Methodology: The accounting and auditing evaluations are an exercise to assess the following three components within a country's accounting and auditing system:

1. *Gauge the strengths and weaknesses of the institutional framework.* This includes (1) legislative laws and regulations, (2) the state of the A&A profession, (3) A&A education, (4) the A&A standards-setting process, and (5) A&A compliance.
2. *Compare the national accounting and auditing standards with IAS and ISA standards.*
3. *Determine the level of compliance to the IAS/ISA standards within the country.*

The A&A modules begin by enlisting the support of policymakers and stakeholders with expertise in accounting and auditing within a country. These individuals constitute the National Steering Committee (NSC) for the ROSC A&A. The NSC then becomes the World Bank's in-country counterpart.

The World Bank then performs a sequence of diagnostics. To fully assess a country's accounting and auditing institutional framework, the World Bank developed four templates. Links to these diagnostic tools and links to their documents are below:

1. Accounting and auditing environment: http://www.worldbank.org/ifa/AA_Environment.pdf
2. National Accounting Standards with reference to International Financial Reporting Standards: http://www.worldbank.org/ifa/AA_Standards2_.pdf
3. Accounting practices: http://www.worldbank.org/ifa/AA_Practices.pdf
4. Auditing standards and practices: <http://www.worldbank.org/ifa/AASandP.pdf>

After applying the diagnostic tools, the World Bank performs a due-diligence exercise with the intent of capturing the accounting and auditing experiences of in-country practitioners.

The final report for a given country generally has seven sections (some have more, depending on the national context). These are an *Executive Summary*, an *Introduction*, a description of the *Institutional Framework*, the *Accounting Standards as Designed and as Practiced*, the *Auditing Standards as Designed and as Practiced*, a description of *Perception on the Quality of Financial Reporting*, and a list of *Policy Recommendations*.

¹ The International Accounting Standards can be further explored at the International Accounting Standards Board Web site: www.iasb.org.

² The International Standards of Auditing can be further explored at the International Federation of Accountants Web site: <http://www.ifac.org/>.

Issues: In September 2004 the World Bank issued the report, "Lessons Learned from the World Bank's Accounting and Auditing ROSC Program." This report can be found in full at http://www.worldbank.org/ifa/LessonsLearned_ROSC_AA.pdf.

The report cites the following list of major obstacles to good national accounting and auditing practices:

- *Misunderstandings of the nature of the standard;*
- *Poor (or lack of) mechanisms for granting national authority to the standards;*
- *Inconsistencies between the legal framework and the standard;*
- *Lack of linkages between general-purpose financial reporting and regulatory reporting;*
- *Inappropriate scope of application of the standards;*
- *Inability to observe compliance;*
- *The international standards themselves need improvement;*
- *Inconsistency between market demands and A&A requirements;*
- *Inconsistency between the capacity to comply and A&A requirements; and*
- *Inconsistency between the domestic ability to enforce the standards and A&A requirements.*

Country Coverage: The A&A ROSC assessments currently cover a total of 61 countries.

Report Access: Access to all of the most recent reports can be found at http://www.worldbank.org/ifa/rosc_aa.html#ctry.

**U.S. Agency for
International Development**
1300 Pennsylvania Avenue NW
Washington, DC 20523
Tel: 202-712-0000
Fax: 202-216-3524
www.usaid.gov