

FINAL REPORT:

GEORGIAN FEDERATION OF PROFESSIONAL ACCOUNTANTS AND AUDITORS (GFPAA) ENGLISH LANGUAGE ACCA PROGRAM

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I. Background

GEAR Project – December 2000:

During the period from September 30, 1997 through December 31, 2000, SIBLEY International Corporation successfully executed the GEAR (Georgia Enterprise Accounting Reform) project. One of the Project's major activities was ((page 1(3)) developing the institutional capacity of a self-regulating organization (SRO) for professional accountants and auditors; ensuring that the SRO is internationally recognized and able to continue reform without USAID assistance and developing a training, testing and certification program (TTCP) for the SRO.

As of the GEAR Final Report, dated January 2001:

- The Georgian Federation of Professional Accountants and Auditors (GFPAA) were established as the independent SRO.
- A new accounting law will transfer the responsibility of training, testing and certifying accountants from the GoG to the GFPAA.

Phase-Out of USAID support for GFPAA training program:

On September 24, 2001, Liam Coughlan, ACCA training advisor, GESP, submitted a status report. Highlights from this report are relevant to the status today and the expectations with respect to the USAID phase-out.

- Financial sustainability is predicated on academic sustainability. This requires the development of educational materials for each course. These materials will comprise of translated 2001 ACCA textbooks, from English into Georgian, the creation of teaching guides in Georgian and the creation of a bank of standard test-questions in each subject.
- It is recommended that support of USD\$63,250 per annum be provided to GFPAA for a period of 2 years, commencing immediately. No additional expatriate technical assistance is recommended beyond the period recommended for the UK-ACCA program. The reason for this is that a sufficient number of Georgians will be qualified under the UK program to assure the quality and sustainability of the GFPAA Georgian language program beyond June 2002.
- In the past, USAID has provided a subsidy to the program of USD\$100 per student. This was paid to GFPAA via the Academy for Educational Development (AED). It is now recommended that the subsidy scheme be replaced by a scheme to ensure that appropriate educational materials are developed during the life of the subsidization. GFPAA students have been demonstrated unable to pay “economic” fees of USD\$200 or more per course.

At present, students pay \$50 if unemployed and \$75 if employed and bad debts exceed 30%.

On June 22, 2001, a report prepared by Will Cain, COP GESP added some additional pertinent comments to the above.

- In addition USAID has paid 50% of the average cost of the program. The program costs approximately \$550 per student, per exam session – amounting to \$1,100 per year.

II. Current Status of Program (June 2002)

The emergence of the GFPAA (GEAR Project) followed by the continued evaluation and analysis by Liam Coughlan and Will Cain, together create a critical perspective to the situation today. Any commentary or analysis today taken in isolation will fail to identify the clear short fall relative to these prior expectations. The proposed USAID phase-out was based upon the attainment of certain critical goals that would result in a perspective of GFPAA achieving a critical mass and/or financial/academic sustainability, independent of continued support. This report addresses the issue of financial sustainability from the following perspectives:

- The GFPAA:

In its present state of infancy, GFPAA is far from a true comparison to the Financial Accounting Standards Board (FASB) in the United States, but ‘theoretically’ it is the Georgian equivalent. Actually, GFPAA is really a combination or hybrid of several, the Financial Accounting Standards Board plus a ‘micro-version’ of the Financial Executives International (FEI) as well as the Georgian version of the ACCA organization in the United Kingdom. Attached is a flyer pertaining to a joint KPMG/FEI symposium on Corporate Financial Management. This symposium is both typical and reflective of the partnerships and inter-relationships between Industry and the FASB that exist in the United States. FEI is a major professional organization in the United States, comprising of senior level financial officers (and some more junior) that represent a vast number of companies doing business in the United States and overseas.

- The official Body of the GFPAA within Georgia:

GPFAA represents the only official and sanctioned (GoG) Georgian organization that will be looked upon to spearhead the westernization of accounting techniques and thinking (both IAS as well as management accounting) that together is more than just crucial to the Georgian economy successfully emerging from the

era of Soviet (FSU) domination. Even more important, Georgian enterprises, both small businesses/entrepreneurs and large employers, will either comply 'under coercion' with IAS or with full spirit, intent and enthusiasm, based very much upon the emotions, attitude and leadership reflected by the GFPAA members.

- GFPAA members, IAS qualified:

As of today, prior to the upcoming June 2002 examinations, and naturally of great concern here, is that only 4 Georgian accounting professionals (GFPAA student data) have completed the ACCA English program. The importance here is that until ACCA Paper 3.6 'Advanced Corporate Reporting' has at least been completed; no student (at the lower levels) is 'qualified' with respect to IAS compliance. Even attaining an exam pass in Paper 3.6 hardly qualifies any student to be experienced in the application of IAS accounting theories and concepts to emerging financial issues here in Georgia let alone current financial transactions. All Financial accountants are constantly faced with decisions with respect to whether a current financial transaction falls under the 'spirit and intent' of a particular FASB/IAS (requires interpreting the standard) and that determines how it is recorded and/or booked to the ledger and ultimately the financial statements (Balance Sheet and/or Income statement).

- Georgian Enterprises (Needed pool of IAS qualified accountants and auditors):

These very low statistics, of truly IAS qualified accountants/ students (and thus directly comparable to Western professional accountants); also do not reflect well upon the ongoing application of IAS to Georgian enterprises. Regardless of all the prior 'financial' conversions to IAS based accounting methodologies:

- A critical mass was reached in the number of enterprises having undergone financial conversions to IAS. A total of 535 enterprises were converted. (Sibley International GEAR project)

Yet with so few 'available' (IAS) qualified accountants (both GFPAA members and assumed independents), the ongoing maintenance and application of IAS within Georgian enterprises is going to suffer. Unfortunately also again, without such a qualified pool, the auditing of IAS based financial transactions to

ensure true compliance is at risk. Without qualified auditors that fully understand and embrace the spirit and intent of these IAS, any financial statements generated within Georgia may 'appear' as IAS compliant but in reality may not be. Notwithstanding the USA, Enron debacle (and others), the auditors effectively are the watchdogs and provide the 'checks and balances' that ensure financials are 'faithfully representing' the economic activities of the enterprise and were prepared in accordance with UK/USA GAAP or international standards (IAS).

Despite this 'reality' there appears to be very little real support yet from Georgian enterprises in providing assistance/support (any) to students in attaining the ACCA qualification. Until all Georgian enterprises 'get onboard' and fully recognize and support the role/function of the GFPAA within the Georgian economic growth model, Georgian accountants, the GFPAA and enterprises in general are going to severely fall short of all 'western' predictions of Georgia emerging from the 'hangover' of the FSU. This perspective validates the opinion, suggested above, that currently IAS compliance in Georgia is probably more being executed under 'coercion' than any notion of a full and embracing support. The only likely way that this can be reversed is for the GFPAA to launch, effectively, a major and aggressive marketing and promotion campaign.

- Georgian Enterprises (Risk of failure):

In terms of Georgia, should enterprises that previously appeared as IAS compliant were to fail, it certainly would do major damage to credibility and the efforts to 'westernize' a CIS member under the FSU. Within Georgia today, additionally there does not exist (or appear to, despite the existence of the National Securities Commission of Georgia) any type of post-failure 'investigatory review body' that would seek to uncover (like Enron) what really happened. Any Georgian federal 'bodies' that conducted such a review that are not aptly qualified per se (ACCA/IAS) would in all likelihood accentuate the damage. Considering the number of US-based enterprises that have failed in the recent decade despite having had clean auditor reports and when this is combined with all the recent FASB accounting (SPE) controversies, such a US record does not bode well for a Georgian enterprise's risk of failure. This is a role/positioning that the GFPAA could potentially develop by taking a proactive stance.

It is certainly in GFPAA's (and that of its members) interest to be in total control in such a post-failure review. Any lack of GFPAA leadership here, as perceived by the GoG, would probably not provide positive publicity for the GFPAA administration/mission or the ACCA credentials, by its critics. Between Sibley International and USAID etc, much effort has and is being extended towards business growth and development. However, not developing a strategy or mechanism to handle failure or adverse situations could seriously undermine all previous efforts. The FASB, SEC etc in the United States are so solidly entrenched and established that they can endure such Enron debacles; Georgia will not have such leverage for many years. However, it is worthy of noting that even in the United States, the Enron affair prompted the Federal Government to become involved legislatively. What would happen in Georgia?

- Georgian Enterprises (Lack of planning/forecasting skills):

More worrisome, in some ways, is that the application of many management accounting/costing techniques* to the development of strategic and financial long-term business (3-5 year) plans and annual operating budgets does not appear to have been addressed anywhere! (Sibley project, *393 Accountants and Auditors took courses)

Both the GFPAA available pool issue plus the lack of requisite experience factor leaves a major gap in this crucial area. Unless enterprises/ managers are 'educated/trained' on developing business plans and forecasts, few, if any, GFPAA members are likely to play major roles and/or be in the right position to acquire the requisite experience. It is certainly feasible that GFPAA members could become very strong proponents of developing forecasting techniques within their own enterprises. Business plan development, additionally, very much requires some degree of entrepreneurial type thinking that displays enthusiasm and reflects hope and an intensity to change. Complying simply with IAS places credibility on historical financial information but does nothing to assure the business will prosper and grow (and increase employment and opportunities), so critically necessary within this current Georgian economy. Only forward planning and thinking will achieve those goals. GFPAA needs to play a major proactive role in developing these skill sets, through training/education and ensuring that its members are fully supportive.

- Summary of GFPAA observations/recommended proactive stances:

- Georgian Enterprises (Needed pool of IAS qualified accountants and auditors):

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- GFPAA Officer Election Meeting (May 25):

On May 25, the GFPAA held its annual officer elections meeting along with an overview to members of achievements, strategies

and its financial position. Other issues, such as bylaws and revoking membership for non-payment of dues etc also came to the forefront in, at times, a somewhat heated discussion. All this was very positive and reflective of a clearly democratic process with all members being free and able to vocally express an opinion. Voting was either conducted by a 'card-showing' by members or by an actual physical count. However, from the perspective of GFPAA sustainability and capacity, many disturbing issues were also presented to the membership.

With respect to both Financial Year 2000 and 2001, a comparison of actual to budget (GEAR project) is attached and reflects the financial position discussed below. The transcripts were translated and reflect the following:

- The main developments and action plans of the Federation is presented clearly in the Business Plan for 2001-2002 prepared by the Executive Administration. The plan also is focused on sustainability of the GFPAA.
- Analyzing the performance of GFPAA it can be concluded that the Federation remains the leader in implementing the accounting reform in Georgia.
- Revision Commission notes that the year 2001 can be considered as the final stage of institutional development of the accounting system that was preceded by self-establishment and a difficult reform preparation stage. 2002 and the following period is considered by the management of the Federation to be the stage of establishing the international accounting practice during which the current level of accounting in Georgia will be brought up to the international level.
- Revision Commission points out the following:
 1. Establishing IASs in practice;
 2. Developing and introducing simplified accounting standards for small business
 3. Developing temporary accounting standards on the issues that are not covered by IASs;
 4. Perfecting the institute of the audit activity in accordance with the international practice;

5. Active participation in drafting and discussing new standards with the close cooperation of the International Federation;
6. Establishing modern education system of accounting.

Achieving these strategic goals, according to the Revision Commission, as well the Board of the Federation, the activities planned by the management of the GFPAA should be directed at solving the major issue of the current period that is to maintain the financial sustainability. 2000 ended with a profit but the year 2001 and the first quarter of 2002 ended with losses.

1. In the current period the Professional Certification Program was phased out and was replaced with a new program based on the ACCA curriculum. Due to the reasons, independent of Federation, the funding of the project was stopped that provided for covering 50% of the expenses for the students participating in the program.
2. The number of students also decreased.
3. In 1999-2000 the Federation received assistance from USAID in terms of funding the salaries (of some employees of the GFPAA) and paying the rent for office space. In the current reporting period Federation did not receive the support and the whole burden was on the Federation.
4. Revenues from training and exams, publications and membership fees continued to be the major source of revenue for the Federation in the current reporting period. The main expenses were spent on salaries, office rent, leasing, advertising and other expenses.
5. Due to the social and economic conditions in Georgia the membership fees are low and

therefore the share of the membership dues reflected in consolidated income (2001) was only 5.6% of total income.

6. To overcome these problems and revenue decreases, a decision by the Executive Administration was to reduce salaries by 45% in the budget of 2002 (this will mostly likely result in a major loss of key personnel) plus the office rent was distributed to other legal entities!
7. The Executive Director offered the members of the GFPAA a 20% discount in training and publications.

With respect to the functioning and purpose of the GFPAA (discussed earlier), the following suggested executive actions and proposals to stem the financial losses are of serious concern.

Additionally, the following text from this meeting now confirms perceived observations*, which were discussed above (comply 'under coercion' with IAS), and that has now been corroborated by the GFPAA:

- Though the Membership Committee, Education Committee and Committee on Standards improved their work it is necessary that their activities be further refined. It is necessary that the Board take drastic measures to cover the loss.
- Due to the above-mentioned reasons there is an unfavorable financial position in the regions also.
- Almost in all the branches of GFPAA certification and training courses are administered. But the common problem is that the pool of trainees is limited. Most of the accountants have been trained in IAS

and in many regions the *management of enterprises is indifferent to introducing IAS.

- No support is provided by the Tax Bodies.
- It is also important to expand and continue the education program and ensure the participation of the GFPAA members in these programs.

Revision Commission notes the priority set by the management of the GFPAA to establish the Institute of Professional Accountants as an authoritative institution where the student will be able to study and deepen their knowledge in accounting. The quality and functioning of the Institute of Professional Accountants will be one of the major criteria for evaluating the GFPAA's performance.

The Revision Commission deems it indispensable that the issue of the 'cost effectiveness' of continuing the ACCA program will be considered.

- The Revision Commission also positively evaluates the activities aimed at reducing the expenses from 2002:
 1. Reducing the staff engaged in training programs in connection with transferring the training programs to the Institute of Professional Accountants
 2. Economizing through introducing the position of Executive Director
 3. Reducing rentals and other administrative overheads.
 4. Revision Commission considers that out of the activities planned to increase the revenues the implementation of the projects submitted to the donor organizations, charging for providing service and holding special trainings will be additional source to increase income.
- ACCA English and Georgian-language Programs

The (new) English ACCA Program comprises of (3) parts:

Part 1

- | | |
|-----------|--------------------------------------|
| Paper 1.1 | Preparing Financial Statements |
| Paper 1.2 | Financial Information for Management |

Paper 1.3 Managing People

Part 2

Paper 2.1 Information Systems
Paper 2.2 Corporate and Business Law
Paper 2.3 Business Taxation
Paper 2.4 Financial Management and Control
Paper 2.5 Financial Reporting
Paper 2.6 Audit and Internal Review

Part 3

Any two from four papers
Paper 3.1 Audit and Assurance Services
Paper 3.2 Advanced Taxation
Paper 3.3 Performance Management
Paper 3.4 Business Information Management

Core papers
Paper 3.5 Strategic Business Planning and Development
Paper 3.6 Advanced Corporate Reporting
Paper 3.7 Strategic Financial Management

Under the current USAID financial support program for GFPAA/ACCA program, the agreement is for a total translation (except for taxation and law) of the ACCA English syllabus to create the Georgian-language ACCA program. To date (June 2002), as far as the translation of the English ACCA over to the Georgian-language program, the following (four) papers (only) have been translated:

Part 1 (Old Syllabus)

Paper 1.1 (Paper 1) Preparing Financial Statements
Paper 1.2 (Paper 3) Financial Information for Management

Part 2 (Old Syllabus)

Paper 2.1 (Paper 5) Information Systems
Paper 2.6 (Paper 6) Audit and Internal Review

- Immediate translation required under the (existing) Georgian program.

These previous papers (above) were translated under the 'old' ACCA syllabus and will require re-translating or updating. The following two papers are, however, 'urgently' needed to

be translated given the expected pool of local Georgian students available for the December 2002 examinations. Students will start studying (in Georgia, only 2–3 months in advance) by September 2002 for the December 2002 examinations.

Part 2 (Old Syllabus)
Paper 2.5 (Paper 10) Financial Reporting (IAS Stream)
Part 3 (Old Syllabus)
Paper 3.3 (Paper 9) Performance Management

Because certain ACCA papers examine local U.K. laws and taxation, they will not be translated. This applies to the following (three) papers.

Paper 2.2 (Paper 2) N.A. (Georgian Corporate Law)
Paper 2.3 (Paper 7) N.A. (Georgian Business Taxation)
Paper 3.2 (Paper 11) N.A. (Georgian Advanced Taxation)

Additionally, it has just surfaced and of great concern to all students here in Georgia, (under both programs) that the entire set of Foulks Lynch texts are to be rewritten given the numerous complaints over content and quality. This means that USAID needs to consider repurchasing an entire set of the new manuals as soon as they are available. However, the issue (above) of the urgent need to translate Paper(s) 2.5 and 3.3 still exists. An alternative (and cheaper) option would be to immediately acquire a complete set of Financial Training Manuals for all Paper(s) through Paper 2.6 (Part 2) plus Paper 3.1 and Paper 3.6 (International Stream). The other papers for Part 3 (excluding Paper 3.2, Advanced Taxation) are being donated through Development Associates, Inc.

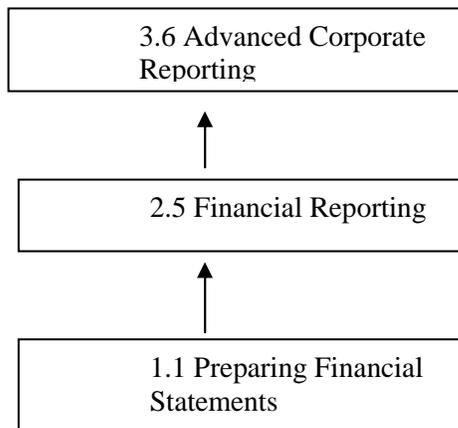
- Georgian-language Program – IAS compliant

The basic premise for a complete Georgian-language translation of the English ACCA program was to ensure that the local Georgian program is IAS compliant and will meet the standards of international bodies, including accounting. However, the entire ACCA syllabus is designed not only around financial reporting standards (GAAP/IAS) but covers a significant number of areas that have ‘nothing’ to do with IAS but everything to do with creating a “U.K. version” of a fully well-rounded British professional accountant. As a simple example, Paper 1.3 deals

with 'Managing People'. There are only three papers that must be translated from an IAS compliant (International Stream) perspective:

Position of paper 3.6 in the overall syllabus (© *Financial Training*)

This paper is the final assessment of the candidates' skills in the area of corporate reporting. The paper builds on the technical skills studied in Paper 1.1 Preparing Financial Statements and Paper 2.5 Financial Reporting by requiring candidates to demonstrate the high level technical and evaluatory skills expected of an accountant. This paper complements the skills acquired in studying the other core papers in Part 3 of the ACCA examination structure.



Part 1

Paper 1.1 Preparing Financial Statements

Part 2

Paper 2.5 Financial Reporting

Part 3

Core papers
Paper 3.6 Advanced Corporate Reporting

This 'checklist' of major issues identified (and observed) both within the GFPAA organization and within Georgia contributes significantly to the following recommendation, discussed below. This synopsis raises many perturbing and serious ongoing issues for the GFPAA that cannot afford to be masked. Unless some of these issues are addressed directly, it is likely that in the near future there will be severe consequences for the ability of the GFPAA to function adequately and perform the

task for which it was formed under the joint USAID/Sibley GEAR project. As discussed above, GFPAA has a major role to play within the Georgian economic growth model and any possibility of it financially collapsing would have major economic and political (GoG) ramifications as well as within the CIS community. Many, if not all, of the following observations pertaining to the GFPAA stem from the internal financial crisis that exists today.

- The existing state of the ‘emerging’ Georgian economy.
- The environmental conditions (heat and electricity) that has ramifications not only to businesses but the students personally with respect to studying conditions.
- The current state of accountancy (IAS) within Georgia and its very poor acceptance level by Georgian enterprises.
- The almost total lack (besides only four) of any Georgian English ACCA qualified accountants.
- Only a possible additional four Georgian students (GFPAA data) may be English ACCA qualified within about 6-12 months.
- Not all these ‘qualified’ students are working in Georgia and therefore do not necessarily add to the available pool of trainers or Georgian accountants.
- All remaining students have a significant number of papers still to attempt (Attached listing).
- The non-existence of any western-standard financial and/or debt market.
- The non-existence of any derivatives market.
- The non-existence of advanced ERP (Enterprise Resource Planning) software applications within Georgia (Peoplesoft, SAP or Oracle).
- The current state of technical sophistication, both Internet (web-based) and business/accounting software.
- The very minimal financial resources (almost zero) that students have available for ACCA studying/educational programs and textbooks.
- The apparent almost non-existent financial support available by Georgian enterprises to support ACCA students.
- The apparent lack of any clear overall support for the efforts of GFPAA towards IAS westernization of accounting by Georgian enterprises.

- The dropout rate of local students, experienced by the GFPAA, upon the termination of the USAID/Sibley scholarship program.
- The abysmal financial (and working) conditions of the GFPAA that totally lacks even basic working capital to cover office supplies (copier cartridges etc) and lacks any real resources to assist students.
- Due to a total lack of resources (both GFPAA and students), all the ACCA texts (Foulks Lynch manuals etc) are loaned to students for photocopying.
- The ability of the GFPAA to continue to provide effective ACCA administrative support is extremely vulnerable. Currently, this entire effort is in one staff member's hands only and no backup support. It is not a role that could be easily replaced and if this staff member resigns the ACCA program administration will be in major jeopardy, especially considering the need for good English writing skills required for all communications with the ACCA in England. It is not simply a function for a good translator.
- Virtually all-technical resources (Computers and software) of the GFPAA are seriously antiquated/ outdated and have been acquired primarily through USAID/Sibley donations. No resources seem to exist for upgrades. It is only a short period of time before these technical resource issues could potentially cripple the GFPAA. (Internet Café's have better equipment)
- Due to using unlicensed and pirated/illegal software copies, many of the software programs do not function correctly on some GFPAA computers.
- All the GFPAA computers should be networked along with daily backup and virus/security protection. Currently (most of) the computers seem to be independent and the GFPAA staff resource may not have the required expertise or experience necessary to handle this critical administrative/technical function.
- The funding for Internet access is totally inadequate considering the need of the GFPAA to be on-line constantly. Additionally, they woefully lack a sufficient number of telephone lines to both maintain Internet access plus open lines for staff and student communications.

- The GFPAA facilities should be available to students offering current state of the art technical resources for research and study/educational support.

It is therefore strongly recommended that the entire Georgian-language program be revamped and all non-Georgian related aspects of the English ACCA program be either deleted or transferred to optional ‘advanced’ paper(s) or form of post-graduate certification that only exceptional Georgian students with overseas intentions might consider obtaining. This, with respect to tax and law is already happening, so extending this concept to other subject/topic areas and localizing them ought not to be so surprising. As an example, in Paper 3.7 the Capital Asset Pricing Model is covered extensively but without even the existence of a Georgian Equity/Debt financial market, this becomes totally useless information to study with absolutely no practical application in Georgia at all. Actually, even in both the U.K. and the United States one could even potentially make this argument. A very realistic alternative option (though more costly) is to create a parallel path for local Georgian students by offering a totally customized Georgian-version only accounting certification while still making available the entire English ACCA program translated into Georgian. With the ‘right packaging’ it is very conceivable that such a customized Georgian version ACCA program (fully IAS compliant) will be totally accepted by the international accounting community. To extract totally unrelated (academic and non-IAS) material to the Georgian business community and the Georgian economy should not detract at all from the fundamental issue that the program is still fully “IAS compliant”.

The English ACCA program includes a vast amount of ‘academic’ study material that has very dubious if any practical application within the emerging state of the Georgian economy. The immediate (and GFPAA financial) benefits of such a major revamping would be, in all probability, to significantly increase the interest of local Georgian accountants/bookkeepers (increase fees revenue) in this local-only version accounting certification program. It is also a reasonable probability that Georgian enterprises could also be ‘sold’ on this idea and begin placing a ‘value’ on such a certification within their organizations. Parallel with this acceptance should be the expectation of some kind of financial support by Georgian enterprises to students, and perhaps ideally, the GFPAA as well. The major current problem in Georgia seems to be the ‘disconnect’ between the efforts of the

GFPAA and that of enterprises in Georgia to which all this 'westernization' of accounting efforts is ultimately aimed.

Until Georgian enterprises (emotionally and financially) are totally in sync with the GFPAA, most of GFPAA's efforts will add minimal value to the Georgian economic growth model. Unless Georgian enterprises are actually complying with IAS, the GFPAA might as well cease to exist, it would have no purpose.

Based therefore upon the premise of maintaining a fully IAS compliant local-Georgian only version of the ACCA program, the following (8) Paper(s) would need to be totally revamped, with much (some less than others) of the material extracted/deleted or transferred to other so-called later optional advanced papers for Georgian students only. If students, within Georgia, elected (or had no choice) to take Paper(s) 3.1 and 3.2 then Paper(s) 3.3 and 3.4 could theoretically be ignored and this decreases the changes to just 6 paper(s).

Part 1

Paper 1.2 Financial Information for Management
Paper 1.3 Managing People

Part 2

Paper 2.1 Information Systems
Paper 2.2 (Paper 2) N.A. (Georgian Corporate Law)
Paper 2.3 (Paper 7) N.A. (Georgian Business Taxation)
Paper 2.4 Financial Management and Control

Part 3

Any two from four papers
Paper 3.2 (Paper 11) N.A. (Georgian Advanced Taxation)
Paper 3.3 Performance Management
Paper 3.4 Business Information Management

Core papers
Paper 3.5 Strategic Business Planning and Development
Paper 3.7 Strategic Financial Management

- Certified International Professional Accountant (CIPA) Program. (Except for beginning 'English' students perhaps, this would probably today have minimal relevance to those that deliberately elected to study under the English ACCA program). The standard, however, set for the CIPA level exam is that of a qualified US-CPA, ACCA or equivalent

(even though ACCA Part 3 is totally excluded). Additionally, a lower level Certified Accounting Practitioner (CAP) exists for the bookkeeper/accountant grades.

Previously, we had discussed an alternative and feasible option (to the existing direct and total translation of the English ACCA program) of modifying certain English ACCA paper(s) to create a local customized (and more relevant) Georgian-language fully IAS compliant accounting certification program. However, a very interesting and viable alternative does exist of Georgia offering (through the GFPAA) an accounting certification program (targeted primarily to Georgian-language students) that automatically:

- Is IFAC compliant, and endorsed by the International Accounting Standards Committee Foundation.
- Provides an immediate and very short path to ‘accreditation’ (professional CIPA designation and recognition) for Georgian-language students that are presently studying and passing Georgian ACCA equivalent examinations (set and graded in Georgia) under an ‘unaccredited’ program (totally opposite to the English ACCA program recognized in nearly 160 countries). This would be a major ‘achievement’ for the Georgian-language program.
- Provides a seamless transfer of (most) ACCA Part 1 and Part 2 credits to this program. To date, no Georgian-language student has gone beyond this conversion point and thus, other than a name change (and many other advantages), Georgian GFPAA students can only gain from this. To date, as discussed previously, only Paper(s) 1.1, 1.2, 2.1 and 2.6 have been translated (old syllabus paper(s) 1, 3, 5 and 6). This would only be a problem for any Georgian-language student intending to sit any ACCA Part 3 papers (3.3, Georgian equivalent) this coming December 2002.

The CIPA Examination comprises:

1. Financial Accounting I {ACCA Paper 1.1}

2. Financial Accounting II {ACCA Paper 2.5}
3. Management Accounting I {ACCA Paper 1.2}
4. Management Accounting II {ACCA Paper 2.4}
5. Finance {ACCA Paper 2.4}
6. Audit {ACCA Paper 2.6}
7. Tax and Law (Georgian) {N.A}
8. Information Technology (IT). {ACCA Paper 2.1}

Therefore, on a direct comparative basis, the following English syllabus ACCA papers have no CIPA equivalent. They also represent the advanced papers in the ACCA syllabus, hence the ability to offer an almost immediate professional CIPA designation.

ACCA English Syllabus -Part 3

Any two from four papers

- | | |
|------------|---------------------------------|
| Paper 3.1 | Audit and Assurance Services |
| Paper 3.2 | Advanced Taxation |
| Paper 3.3* | Performance Management |
| Paper 3.4* | Business Information Management |

Core papers

- | | |
|------------|---|
| Paper 3.5* | Strategic Business Planning and Development |
| Paper 3.6 | Advanced Corporate Reporting |
| Paper 3.7* | Strategic Financial Management |

* Recommended as requiring major Georgian customization/modification to fit the Georgian economic model and needs of local enterprises.

- Has an independent testing component - meaning that the GFPAA do not have to hire examiners, graders, auditors etc. The CIPA Examination Network carries out this process and the results are transmitted directly to the candidates and GFPAA (identical to the current ACCA process).
- Is shorter, and candidates will qualify faster. (a major advantage here in Georgia)

Were GFPAA to 'migrate' over to the CIPA program (primarily the Georgian-language students), the CIPA would exempt Georgian students who have passed the Georgian exams in Papers 1,2,3,4,5,6,7 and 8 from the corresponding courses.

This will mean that there will be a cadre of Georgian students who can earn the CIPA qualification by passing just one or two exams. This is a major advantage over the ACCA program given just how many papers remain to be passed that is the majority for most Georgian-language students.

This 'option' when really viewed from all the different angles as well as the 'frustrations' that presently exist within the GFPAA student population vis-à-vis the scholarship phase-out, the difficulty of the ACCA program generally and poor availability of materials, the length of time needed to qualify and the cost, the CAP/CIPA could be the panacea that the GFPAA needs most urgently at this juncture.

Earlier, we had discussed some 'observations' both with respect to the Georgian economy and that of the GFPAA. Additionally, the transcript of the recent GFPAA Meeting (May 25) raised some concerning issues with respect to the existing financial condition and the status of the ACCA program from a 'cost perspective'. The above program(s), CAP/CIPA directly addresses the following, and would have, in the long-run, a major financial benefit to the GFPAA of both increased revenue (increased student body) and a greatly reduced cost structure, that combined will flow directly into a major increase in net income and also cash flow.

(Prior applicable comments, repeated here:)

- As of today, prior to the upcoming June 2002 examinations, and naturally of great concern here, is that only 4 Georgian accounting professionals (GFPAA student data) have completed the ACCA English program.
- Achieving these strategic goals, according to the Revision Commission, as well the Board of the Federation, the activities planned by the management of the GFPAA should be directed at solving the major issue of the current period that is to maintain the financial sustainability.

2000 ended with a profit but the year 2001 and the first quarter of 2002 ended with losses.

- The Revision Commission deems it indispensable that the issue of the 'cost effectiveness' of continuing the ACCA program will be considered.

The CIPA program will greatly simplify and create a 'professional-status' for the Georgian-language ACCA equivalent program. Currently, being unaccredited, it automatically becomes 'inferior' to the English program. The CIPA path thus provides an alternative to the full English ACCA program (for Georgians) and reflects far more the economic model within Georgia and the needs of Georgian enterprises. The costs for GFPAA are greatly reduced (GFPAA doesn't need to hire examiners, graders etc, above). The CIPA can arrange secure translation of test papers into Georgian and could arrange grading in Georgian from, as early as, November 2002 onwards. As a result, GFPAA will be in an excellent position to reevaluate its cost structure and bring all expenses in line with a positive profitability goal in the relative short-term. Finally, Liam Coughlan, who has extensive Georgian experience through the Sibley, GEAR project, is the 'Director CIPA Examination Network', that from GFPAA's perspective is certainly a very positive consideration.

- GFPAA possible strategies to develop both funding sources as well as promote/market the ACCA/IAS program. These are additional to the earlier suggested 'proactive stances' such as developing planning/forecasting skill sets to GFPAA members and Georgian enterprises.
 - Develop a conference program, offering:
 - IAS technical issues.
 - Training Accountants in Georgia – What do Georgian enterprises really want?
 - Ongoing accounting education in Georgia – developing the model.
 - Financial Statements – what they really mean under IAS.

- What can GFPAA offer both accountants and enterprises in Georgia?
 - What do small businesses need?
 - How to start a small business and keep it financially successful – the role GFPAA can play.
 - How to transition effectively to an IAS based model.
 - Developing accounting software solutions to Georgian business needs – how to identify the real ‘needs’ – developing/using RFP (Request for Proposal) concepts.
 - Using spreadsheet software to more effectively manage and control costs and expenses.
 - Under IAS and Management Accounting techniques – developing and using the right Management Reports – understanding decision-making and taking corrective actions.
 - How to not revert back to the old FSU accounting ways – what GFPAA can do.
 - How can you get the ‘old’ staff within a Georgian enterprise to think IAS and entrepreneurially.
 - How to effectively maintain an IAS compliant financial model – problems facing Georgian accountants.
 - Auditors are not your enemies – developing that arms-length partnership – how auditors can help enterprises maintain compliance.
 - Emerging issues facing Georgian enterprises
 - Joint GFPAA and Georgian Enterprises Planning and Developing the Georgian economy – a partnership
 - Management Accounting Techniques
 - Developing Forecasting/Business modeling skill sets
- GFPAA could offer ‘targeted training’:
- The GFPAA could take its core abilities (and member skill sets) and instead of just focusing on training for the ACCA examinations, use the same material to offer training to enterprise

accounting staff (and management). This could be done either in-house (at the enterprises offices) or using GFPAA facilities. The GFPAA could develop “certificates” to enterprise participants. Enterprise management, could in turn, provide ‘moderate’ rewards/incentives to their staff for attaining such certifications.

- The GFPAA could also offer a local-only micro-version of the Georgian ACCA program (or its recommended customized-alternative above) and offer certificates in:
 - Bookkeeping
 - Costing techniques
 - Management Accounting
 - Basic auditing skills
 - Basic Georgian Business law
 - Basic Georgian Taxation
 - Business Planning concepts
 - Financial Modeling skills
- The GFPAA could develop joint training and educational partnerships with the major Accountancy firms in Georgia.

The accounting/educational needs within Georgia may, perhaps at times, require the resources and expertise of the major accountancy firms. Such a partnership facilitates a sharing of resources, such as providing ACCA program trainers/conference leaders, and allows such events to occur that could not independently. All resulting net cash flow could appropriately be shared under any number of mutually agreed arrangements. The role and leadership function however (official GoG agent per se) of the GFPAA should never be undermined by the accountancy firms. In reality it is certainly within the interest of all parties, and especially the major accountancy firms, for GFPAA to succeed and achieve high prestige and status within the Georgian

economic growth model. If GFPAA (and the IAS model) fails (or receives a temporary setback) then the business interests of the major accountancy firms will also be negatively impacted by the fall out.

- GFPAA to develop a Strategic White Paper.

For GFPAA to financially succeed it needs to clearly establish long-term independent financial resources, besides that of USAID.

Such resources could include:

- Major Corporations (that have a major interest in IAS development and training needs, though voting should never favor major donors)
- Georgian Endowment Funds that will view GFPAA as a long-term and very secure investment.
- Banks and Financial Institutions that will view the GFPAA as a top-line credit risk and would be willing to extend very long-term credit facilities with low interest charges. Like Accountancy firm, banks also need GFPAA to succeed in developing the IAS model and the small business community through providing financial/accounting expertise. It again is a natural partnership.

- Action Plan: Joint USAID/GFPAA and Development Associates Inc. brainstorming session:

On June 20th, 2002, a session has been scheduled to 'brainstorming ideas' for developing GFPAA strategies. This has been scheduled between the Executive Director, Lavrenti, and Chairman, Revaz, of the GFPAA and USAID, Geoff Minott along with Peter Welch of Development Associates, Inc.