

Needs and Challenges of Accountancy Profession in CAPA Region



Building, developing and maintaining a strong accounting profession in emerging nations does have its challenges. Firstly, there is a general lack of awareness of the benefits to economic development in having a strong accounting profession. Secondly, many professional accountancy organisations have poor governance or structural arrangements. And thirdly, there is a lack of technical and financial resources necessary for capacity building. These are all interrelated and create a vicious circle which needs to be broken and the Confederation of Asian and Pacific Accountants (CAPA), with 31 members, is doing just that in the region. CAPA is striving to facilitate high quality financial management and reporting systems to foster financial stability, encourage trade, create employment and provide social progress. It has three strategic thrusts — Capacity Building, Leadership in enhancing the profession, and Leadership on Emerging issues. Read on to know the needs and challenges of accountancy profession in CAPA region.

Strengthening the Accountancy Profession

We all know that major investments and projects undertaken in developing countries are to help them establish the social overhead capital (SOC) and physical infrastructures. But is the same level of investment made in the countries for financial support systems? Ever since the Global Financial Crisis, the inter-relationship of financial stability, economic development and social progress has been re-emphasised. In other words, high quality financial management and reporting systems are required to foster financial stability, encourage trade, create employment and provide social progress. Especially in developing countries, this means attracting foreign direct investments, improving the efficiency and effectiveness of government and foreign aid programmes and developing a strong SME sector which underpins all economies.

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poor governance or structural arrangements. And thirdly, there is a lack of technical and financial resources necessary for capacity building. These are all interrelated and create a vicious circle which needs to be broken.

CAPA i.e. Confederation of Asian and Pacific Accountants, as a Regional Organisation can tackle these challenges. A Regional Organisation, like CAPA, is in better position to mobilise the significant resources of the global profession, represented through IFAC, for a minimum cost. CAPA has a long history - in fact it goes back further than IFAC. It was founded in 1957 with 16 jurisdictions. Today, we have 31 members (professional accounting organisations: PAO) from 24 jurisdictions, with a very large geographic spread, covering Canada, in the northeast to Pakistan in the west. This makes it larger than any other Regional Organisation. Our mission is to provide leadership in the development, enhancement and coordination of the accounting profession in the Asia-Pacific region. We also have three strategic thrusts; first, Capacity Building, second, Leadership in enhancing the profession and finally, Leadership on Emerging issues. We categorise our efforts involving developing the profession in emerging economies under Strategic Thrust 1: Capacity Building. Our efforts involving Capacity Building are perhaps our most important role and area of focus. But of course, our objectives in Leadership of the profession must go hand-in-hand.

There are four Regional Organisations recognised by IFAC. Broadly speaking, they cover the Americas, Africa, Europe and Asia-Pacific. The uniqueness of CAPA among other regional organisations is that, we have both developed and developing countries in our region. Among the 31 members, more than half are classified as "developing" by the United Nations with GDP per capita below US\$10,500. In CAPA, both developed and developing countries share the vision and pool resources together to assist in strengthening the professional accountancy organisations and learn how we can grow collectively. Many of these in fact have very well developed national accounting

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organisations, some established for many years, others in more recent times. Simply bringing these parties together on a regular basis provides immeasurable benefit, with the opportunity to build relationships and share knowledge among the member bodies. Now, let's look in more detail as to how CAPA helps develop strong professional accountancy organisations in the region. Our assistance can be categorised under **three important challenges** faced by developing countries; all of which are interrelated and, combined, create a vicious circle.

(1) Lack of Awareness

The first challenge is a lack of awareness of the benefits of a strong profession to assist economic development. This lack of awareness hinders the creation of clear legislative frameworks and country systems. We have to meet directly with those decision-makers and influential government officers to raise the awareness and to advocate for support for the profession. During our visits around the region, we organise meetings and roundtables to achieve these goals. A good example of this is the Round Table with Governments in Nepal. We also make ourselves visible through conferences and seminars in the host countries where our board meetings or strategy committee meetings are held. We also utilise our website, newsletter and annual report to promote the accounting profession in our region.

(2) PAO Internal Weakness

The second challenge is internal weakness. This means poor governance or structural arrangements within an organisation. So we provide assistance to establish well designed Constitutions, proper management, and strong Councils and Committees. Excellent examples are the CAPA project on the Introduction of Constitution and By-Laws in Papua New Guinea and the development of Action Plan in Fiji and Papua New Guinea. Often, strong relationships emerge between stronger organisations with many resources, and organisations that are developing. Sharing of resources, knowledge and experience can become very extensive, and long term relationships emerge. Examples are India and Nepal, Australia and Solomon Islands, Japan and Mongolia. We have policies at CAPA to provide some financial assistance, so developing organisations can better participate in CAPA activities. Furthermore by visiting organisations in emerging economies, as part of our regular meeting program and outreach, we are able to provide face-to-face encouragement and support, as these organisations strive to overcome challenges and a lack of resources, to build a profession that they are proud of.

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by all member countries in the Asia/Pacific region. Where the sovereign debt crisis situations still remain unsolved, improving the quality of financial reporting in the public sector is viewed as critical. CAPA supports accrual based financial reporting as the only means to provide the necessary high quality, transparent reporting of public sector activities and position. ”

(3) Inadequate PAO Capacity

The final challenge is the lack of technical and financial resources necessary for capacity building. CAPA can provide three activities to cope with this problem. Firstly, CAPA can organise train-the-trainer activities. They allow the building of resources in the emerging economies. A few years back CAPA held a successful learning experience with the Joint CAPA-ADB Project on Upgrading of Accounting Education. In addition CAPA conducted a very recent and successful program in this area, namely the Joint CAPA-IFRS Foundation IFRS for SMEs workshop funded by the Asian Development Bank. Secondly, CAPA can efficiently and effectively access and share tools, materials and good practices- such that the developing organisation does not have to "reinvent the wheel". These include CAPA projects in publishing Teaching Resources for Accounting Technicians (another project funded by ADB) and Competency Guidelines for Accounting Technicians. Thirdly, CAPA published a Guide to Essential Components of a Professional Accountancy Organisation which provides a database listing of what has been identified as essential components for an operating accounting body in the region. Better collaboration between members would allow sharing of valuable innovations and greater understanding of Professional Accountancy Organisation.

In January of this year, we held two workshops, one in Kuala Lumpur, and one in Hyderabad in India. The main objective of the workshops was to promote accounting standards and is part of CAPA's strategy with respect to Capacity Building for the profession in the region. The focus was the recently released IFRS for SME's. We attracted some 85 participants, largely trainers, but also some other key stakeholders, from across 14 countries, many from developing countries. Our instructors were essentially the two individuals behind the writing of the standards — so we could not have had better instructors. This showed in the

subsequent participant evaluations; with 90 per cent of participants rating the workshops 4 or 5 out of a 5. It should be also noted that based on information as at 30th June, the training had already been replicated to a further 3,000 accountants, and there were plans in place to provide the training to a further 1,500. However, it should also be noted that the support from funding agencies are crucial in successful capacity building. It was the fact that we obtained the very generous support of the Asian Development Bank that allowed us to conduct the workshops. With funds from the ADB, we were able to pay for all the travel, accommodation and other attendance costs of those from the eight developing countries.

Improving Public Sector Financial Management

In the middle of last April, CAPA issued a position statement to fully support and encourage the convergence towards international Public Sector Accounting Standards by all member countries in the Asia/Pacific region. Where the sovereign debt crisis situations still remain unsolved, improving the quality of financial reporting in the public sector is viewed as critical. CAPA supports accrual based financial reporting as the only means to provide the necessary high quality, transparent reporting of public sector activities and position.

To serve the public interest, CAPA has always emphasised that **“financial infrastructure is as important as physical infrastructure.”** As one of the major strategies, CAPA is to assist in the improvement of public sector financial management. There are two major parts to financial infrastructures. One is the private sector and the other is the public sector. For the private sector's financial reporting, we have IFRS which is now well known in the international capital markets. More than 160 countries announced they are adopting or at least converging to IFRS. For the public sector financial reporting we have IPSAS, International Public Sector Accounting Standards. However, IPSAS is not known to the public as well as IFRS. The global financial

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crisis has underscored the need for transparency in government financial reporting.

CAPA's mission also includes enabling the profession to provide services of consistently high quality in the public interest. CAPA will lead changes in public sector accounting and reporting to support enhanced public sector financial management. In this sense, the Seoul symposium for "Improving Public Sector Financial management", which was held in last May, was meaningful for our region. This very successful symposium focused on strengthening the accounting in the public sector, providing an overview of IPSAS, as well as case studies and experiences of those transitioning from cash-based accounting to accrual-based accounting. There were more than 140 participants; more than 60 from abroad and about 80 Korean domestic participants. We also had a round table on the next day of the symposium to have closed and private talks among key participants such as Indonesia, Bangladesh, Pakistan, China, New Zealand and so on.

This symposium greatly enhanced the recognition of the importance of accrual based accounting. The accrual based accounting will promote transparent reporting of public sector activities and position, furthermore this will build up the financial infrastructures in our member countries.

Partnering with Donor Communities

As witnessed from the Train-the-Trainer example, involving IFRS for SME's, with additional resources, we can make a huge difference to emerging economies. This training will improve financial reporting in countries, which is essential to encourage more foreign investments, to improve social outcomes and to reduce poverty by increasing employment. So we are aiming to increase our collaborative efforts with the donor communities.

An example of collaborative efforts made by CAPA is our participation in the "OECD-DAC Task Force on Public Financial Management" meeting held in Manila on the 6th June. In the meeting the contents of MOU between the donor community and IFAC was discussed. The MOU emphasised not only the role of professional accountancy body in each country but also the role of regional organisations and IFAC.

Successful capacity building in the financial infrastructure for sustainable economic growth in developing countries needs comprehensive and long term commitment. Therefore, the support of donor communities is essential for a regional organisation such as CAPA, which has very limited resources, to be able to really make a strong impact on strengthening

financial infrastructure at the ground level in emerging economies in the region.

From this point of view, the MOU between the donor community and IFAC is very important and meaningful. CAPA fully supports the spirit of the MOU. That is the partnership between the donor community and accounting profession in the capacity building of financial infrastructure of public and private sectors in developing countries. CAPA looks forward to working and collaborating with the donor community, IFAC and World Bank more closely than ever in realising the spirit and achieving the purpose of the MOU.

Challenges

In the last two years we have done meaningful work such as "train the trainers" programmes and "Seoul Symposium for Improving Public Sector Financial Management." There are two important factors for making the activities so successful. The first is the support from IFAC, which has the resources to back up CAPA which has a close relationship with members in the region. The second is the support from the donor community. The challenge is to ensure that there is collaboration between IFAC, CAPA and the donor community and this will create great synergy of resource utilisation in implementing the capacity building of professional accountancy organisations in developing countries.

The second challenge facing the region is concerned with the development of SMPs. We had the Beijing SMPs conference in 2009, co-hosted by CICPA and IFAC. We all agreed SMEs are very important and actually constitute the majority of our economy. For example, on average, more than 95 per cent of enterprises are SMEs. SMEs and SMPs have several similar characteristics. Both of them have challenges in capacity building and enhancing public confidence because they have limited number of professional staff members and limited access to new technological developments. On the other hand there are greater opportunities for SMPs to provide better services designed for small individual companies than big firms because they can be more flexible and adaptable to each individual client. The challenge here is for SMPs to remain up-to-date and in tune with their clients' needs. CAPA is able to help them do this through the provision of seminars and workshops.

At the 18th CAPA conference in Brisbane, Australia from 7th to 9th September 2011, CAPA is planning to provide SMP seminars and workshops to support SMP accountants to develop business models and acquire newly developed knowledge. We will also work closely with the SMP committee of IFAC in pursuing this programme. ■