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Human resources development challenges

Key foundations for high-quality corporate reporting: Human resources development challenges

Note prepared by the UNCTAD secretariat

Executive summary

The UNCTAD Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR) has been working on an Accounting Development Tool (ADT) for high-quality corporate reporting. The ADT is composed of four pillars: a legal and regulatory pillar, an institutional pillar, a human capacity pillar, and a capacity-building process pillar. In concluding its twenty-ninth session, the Group of Experts proposed to focus its deliberations during the thirtieth session on the human capacity pillar.

This issues note has been prepared by the UNCTAD secretariat to facilitate ISAR's discussions on this topic. The note presents a review of human resources development trends and challenges in achieving high-quality corporate reporting. It highlights trends such as the adoption and implementation of international standards and codes, the increasing regional cooperation as well as international cooperation among regulators of the accounting profession, and the emergence of education initiatives. The note also discusses some of the major challenges in building human capacity. These include the need to strengthen and harmonize the education system to incorporate international requirements, particularly in developing countries, and the need to create sound systems of certification, continuing professional development (CPD), and discipline and sanctions to ensure proper implementation of standards. Other issues discussed include the need for training activities across the reporting chain and the lack both of training for accounting professionals and of involvement of professional accounting organizations (PAOs) in the public sector.

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I. Introduction and background

1. Recent sessions of ISAR have been dedicated to developing a comprehensive approach to achieving high-quality corporate reporting. To this end, over the past four years, ISAR has been developing and refining the ADT. The tool consists of an accounting development framework (TD/B/C.II/ISAR/56 and its addendum TD/B/C.II/ISAR/56/Add.1) and a set of accounting development indicators (TD/B/C.II/ISAR/59). The ADT is built on four pillars: a legal and regulatory pillar, an institutional pillar, a human capacity pillar and a capacity-building process pillar. At its twenty-ninth session, ISAR conducted further deliberations on two pillars of the ADT, that is, the legal and regulatory pillar and the institutional pillar.

2. In concluding its twenty-ninth session, ISAR proposed as one of the main agenda items for its thirtieth session, human resources development challenges for high-quality corporate reporting. This note has been prepared by the UNCTAD secretariat to facilitate ISAR's deliberations on this topic. It presents a review of human resources development trends and challenges from the perspective of achieving high-quality corporate reporting. It discusses the experiences of various countries and institutions with a view to identifying policy options and good practices that member States could consider in formulating action plans for human capacity development.

3. The ADT recognizes the critical importance of human capacity for achieving high-quality corporate reporting and as such an entire pillar is dedicated to this topic. There are a number of human capacity-related challenges that countries face when implementing corporate reporting standards and codes developed at a global level. These challenges occur to a varying extent in all countries regardless of their level of economic development. Reorientation of existing national education systems to integrate globally developed standards and codes could take a considerable amount of time – in some cases an entire generation. However, most countries do not have the option of allowing such long transition periods for the implementation of global standards. Transition to a new accounting framework is challenging and a critical integral component of managing such a transition period is developing the necessary competencies in relation to implementation of the global standards. Thus, developing human resources capacity for corporate reporting in a sustainable manner requires regulatory and institutional support as well as reliable sources of funding.

II. Trends in corporate reporting and their implications for human capacity development

A. Globalization of corporate reporting standards and codes

4. Over the past decade, there has been a clear trend towards adoption of international standards and codes by member States. This trend has had highly significant implications for member States with respect to human capacity development on a number of corporate reporting topics.

5. In 2001, the International Accounting Standards Board (IASB) was established as part of the International Accounting Standards Committee, which has been superseded by

the International Financial Reporting Standards (IFRS) Foundation. At present more than 125 jurisdictions worldwide either permit or require the use of IFRS issued by the IASB.¹

6. Analysis by UNCTAD² shows that among the largest 5,000 enterprises (in terms of total assets) around the world, 35 per cent prepared their 2010 financial statements in accordance with IFRS, 38 per cent applied national standards, and 27 per cent applied Generally Accepted Accounting Principles (GAAP) in the United States of America. From 2009 to 2010, the number of entities that applied IFRS increased by more than 11 per cent. The majority of entities that adopted IFRS in 2010 were from Brazil, followed by Chile.

7. The International Auditing and Assurance Standards Board (IAASB) was established in 2002, superseding the International Auditing Practices Committee. International Standards on Auditing (ISAs) issued by the IAASB are being implemented by over 125 jurisdictions in various forms.³ For example, ISAs are the national auditing standards in 29 countries. In February 2009, the IAASB completed its Clarity Project through which 36 ISAs and the International Standard on Quality Control were rewritten with a view to clearly articulating the requirements in the standards following new drafting conventions.

8. A similar trend has been occurring in the area of non-financial reporting. UNCTAD ISAR published guidance on corporate governance disclosure and on corporate responsibility reporting in March 2006 and February 2008, respectively. The Global Reporting Initiative published the first set of Global Reporting Initiative indicators in 2000 and, in May 2013, launched the fourth generation of its indicators.

9. The International Accounting Education Standards Board (IAESB) was established in 2005, replacing the Education Committee of the International Federation of Accountants (IFAC). The IAESB issued eight International Education Standards (IESs) on a range of topics: entry requirements; content of professional accounting education programmes; professional skills and general education; professional values, ethics and attitudes; practical experience requirements; assessment of professional capabilities and competence; continuing professional development; competencies for audit professionals.

10. In October 2009, the IAESB agreed on a project⁴ to redraft IES 7 on continuing professional development, and to revise and redraft the remaining IESs. In December 2009, the IAESB published *Framework for International Education Standards for Professional Accountants*. The objectives of the redrafting exercise are to improve clarity, ensure consistency with concepts of the revised framework, and clarify issues resulting from changes in the environment of professional accounting education and the experience gained from implementation of the standards by IFAC member bodies. As of July 2013, IES 1, 5, and 6 have been revised and IES 7 has been redrafted. It is expected that all will be revised or redrafted by the fourth quarter of 2013.⁵

¹ Based on data maintained by www.iasplus.com.

² UNCTAD, *International Accounting and Reporting Issues: 2011 Review*, UNCTAD/DIAE/ED/2012/4.

³ See <http://www.ifac.org/about-ifac/membership/compliance-program/basis-isa-adoption>.

⁴ See <http://www.ifac.org/education>.

⁵ See "Update: International Education Standards Revision Project", IAESB, at www.ifac.org/Education.

B. Institutional developments

11. During the last decade, a number of institutional developments have occurred in the corporate reporting arena. Most of these developments have arisen in response to the globalization of business activities as well as related standards and codes of corporate reporting.

12. In the aftermath of Enron, the Congress of the United States passed the Sarbanes–Oxley Act in July 2002. This legislation has had far reaching effects extending beyond the United States. Both Senators Paul Sarbanes and Michael Oxley highlighted the global impact of the Act at a discussion organized by the Center for Audit Quality on 30 July 2012⁶ – marking the tenth anniversary of the passing of the Act. One of the implications of the global reach of the Act has been the establishment of public audit oversight bodies around the world that are similar to the Public Company Accounting Oversight Board. Furthermore, international cooperation among regulators of the accounting profession has been increasing over time.

13. The International Forum of Independent Audit Regulators (IFIAR) was established in September 2006 with audit regulators from 18 jurisdictions. Current IFIAR membership has grown to 46 independent audit regulators from 46 jurisdictions. IFIAR facilitates sharing of knowledge of the audit market environment and practical experience of independent audit regulatory activity focusing on inspections of auditors and audit firms. It also promotes collaboration and consistency in regulatory activity. It organizes annual workshops for inspectors to exchange information and experiences relating to inspections of audit firms. IFIAR publishes on its web site inspection reports of its members.⁷ At the end of 2012, IFIAR published a summary report of a survey it conducted regarding findings of audit inspections.⁸ These findings have significant implications for the education and training of accountants and will be discussed further in the next section of this paper.

14. The Global Accounting Alliance⁹ was formally announced in 2006. It includes nine institutes from different countries around the world. The Alliance's aim is to promote the delivery of quality professional services, support its global membership base, share information and collaborate on international accounting issues. The alliance provides professional support to its 700,000 members. It also works with national regulators, governments and stakeholders, through member-body associations. In June 2011, the governing bodies of the American Institute of Certified Public Accountants and the Chartered Institute of Management Accountants (based in the United Kingdom of Great Britain and Northern Ireland) unanimously voted to create a new professional designation – the Chartered Global Management Accountant. The designation was officially launched globally on 31 January 2012. It was highlighted at the launch that the Chartered Global Management Accountant qualification was intended to provide companies with the competencies needed for better integration between financial and non-financial information, with a view to driving business growth and to include that information in the financial reporting process.¹⁰

⁶ American Institute of Certified Public Accountants, *Journal of Accountancy*, July 2012.

⁷ Inspection reports from Australia, Belgium, Germany, Japan, Malaysia, Mauritius, the Netherlands, Norway and the United Kingdom are available on the IFIAR web site – <https://www.ifiar.org/Home.aspx>.

⁸ IFIAR (2012), “2012 Summary Report of the Inspections’ Findings”, 18 December.

⁹ See <https://www.saica.co.za/Members/AboutMembers/AbsenteeMembership/GAAPPassport/tabid/763/language/en-ZA/Default.aspx>.

¹⁰ *Chartered Global Management Accountant Magazine* (2012), “CGMA launch focuses on non-

15. In May 2011, the Pan African Federation of Accountants (PAFA) was launched, forming the first continent-wide organization for the accountancy profession in Africa. The Federation is composed of 39 professional accountancy organizations representing 35 African countries. At its first General Assembly held in Tunisia in May 2012, PAFA resolved¹¹ to adopt IFRS, IFRS for small and medium-sized enterprises (SMEs), ISAs, International Public Sector Accounting Standards (IPSASs), IESs, and the Code of Ethics for Professional Accountants developed by the International Ethics Standards Board for Accountants.

16. Members of the East African Economic Community, namely Burundi, Kenya, Rwanda, the United Republic of Tanzania and Uganda, have scheduled commitments during the period from 2010 to 2015 on the progressive liberalization of services, including in the areas of accounting, auditing and bookkeeping.¹² Adoption of international standards by the respective members of the Community would facilitate liberalization of services in terms of market access as well as mobility of accounting professionals within the Community.

17. Members of the Association of Southeast Asian Nations (ASEAN), namely Brunei Darussalam, Cambodia, Indonesia, the Lao People's Democratic Republic, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Viet Nam, are working towards regional economic integration by 2015. One of the implications of economic integration of ASEAN with the accountancy profession is the increased facilitation of mobility of professional accountants within the region. As a result professional accountancy organizations in ASEAN countries are working towards formulating arrangements for mutual recognition of qualifications across the Association.¹³

18. In January 1983, the Closer Economic Relations agreement between Australia and New Zealand came into force. In this context, in May 2013,¹⁴ the institutes of chartered accountants of the two countries agreed to form a new Trans-Tasman Institute. Leaders of the institutes in the respective countries indicated that a joint institute would be beneficial for both countries. The structure would be a more sustainable institute with greater scale, and with increased policy formulation and advocacy capability as well as global influence. The joint institute is envisioned to have the critical mass needed to offer enhanced training, professional development and global business connections.

19. The trend towards globalization has also prompted institutional developments at the national level. For example, in January 2012 the three national professional accountancy bodies in Canada, that is, the Canadian Institute of Chartered Accountants (CICA), the Certified Management Accountants of Canada and the Certified General Accountants of Canada, published a framework for merger.¹⁵ By merging, the three professional bodies

financial value, long-term business strategies", 31 January.

¹¹ PAFA Press Release (2012), "PAFA General Assembly resolves to adopt international standards", 4 May, available at <http://www.pafa.org.za/siteitems/PAFA%20General%20Assembly%20Resolution%20to%20Adopt%20International%20Standards.pdf>.

¹² The East African Community Common Market (2009), "Schedule of Commitments on the Progressive Liberalization of Services", November, available at http://www.eac.int/index.php?option=com_docman&task=doc_view&gid=356&Itemid=163.

¹³ See <http://www.asean.org/communities/asean-economic-community/item/asean-mutual-recognition-arrangement-framework-on-accountancy-services-3>.

¹⁴ New Zealand Institute of Chartered Accountants (2013), "NZICA and ICAA give CER a boost", 7 May.

¹⁵ Canadian Institute of Chartered Accountants (2012), "Canada's three legacy accounting bodies issue unification framework", Toronto, 17 January.

expect to: best serve the profession and protect the public through the provision of a common certification programme and a single set of high ethical and practice standards; enhance and protect the value of the designation in an increasingly competitive and global environment; contribute to the sustainability and prosperity of the Canadian accounting profession; govern the accounting profession in an effective and efficient manner.

C. Professional qualification and training of accountants

20. The benefits of globally recognized corporate reporting standards, such as IFRS, ISAs and various codes on environmental, social and corporate governance issues for promoting reliability and comparability of corporate reports around the world are widely recognized. However, the benefits provided by such corporate reporting standards can only be attained if they are adequately implemented. Consistent implementation depends to a great extent on the availability of properly trained human resources.

21. The Education Initiative of the IFRS Foundation¹⁶ has been contributing to the adoption and consistent application of IFRS, including by organizing a series of regional half-day IFRS teaching workshops with a view to assisting IFRS teachers and trainers to educate accountants on IFRS more effectively. One of the main components of these workshops has been to encourage and support a framework-based approach to teaching IFRS. This is intended to develop in students the ability to make professional judgments in applying principles-based accounting standards and to prepare students for lifelong learning. The Education Initiative has also been organizing train-the-trainers events on the IFRS for SMEs.

22. The number of professional accountants appears to have been growing over recent years. For example, the six chartered accountancy bodies¹⁷ in Ireland and the United Kingdom as well as the Association of International Accountants have been experiencing growing numbers of professional members and students both domestically and worldwide.¹⁸ The total number of members of the six bodies grew by 19.7 per cent from 2006 to 2011, reaching a total of 438,146. Over the same time period, the number of members of these professional bodies outside of Ireland and the United Kingdom grew by 28.8 per cent. The number of students registered with the six professional bodies grew by 30.8 per cent, reaching a total of 452,119. It is also important to note that among the members of the six professional accountancy bodies, the percentage of professional accountants employed in the public sector is very low (below 10 per cent) for most of the six PAOs, with the exception of the Chartered Institute of Public Finance and Accountancy (60 per cent).

23. In the United States, the number of students enrolled in undergraduate and graduate accounting programmes has grown to 225,000. Enrolment in master's of accountancy degree programmes grew by 30 per cent from 2009 to 2011.¹⁹ In 2010, among new graduates hired by accounting firms in the United States, 43 per cent had a bachelor's

¹⁶ See <http://www.ifrs.org/Use-around-the-world/Education/Pages/Education.aspx>.

¹⁷ The six Chartered Accountancy Bodies in the United Kingdom are the Association of Chartered Certified Accountants (ACCA), Chartered Accountants Ireland (CAI), Chartered Institute of Management Accountants (CIMA), Chartered Institute of Public Finance and Accountancy (CIPFA), Institute of Chartered Accountants in England and Wales (ICAEW), and the Institute of Chartered Accountants of Scotland (ICAS).

¹⁸ Financial Reporting Council, Professional Oversight Board, *Key Facts and Trends in the Accountancy Profession, June 2012*.

¹⁹ American Institute of Certified Public Accountants, *2011 Trends in the Supply of Accounting Graduates and the Demand for Public Accounting Recruits*, Durham, North Carolina, United States of America.

degree in accounting while 37 per cent held a master's degree in accounting and the rest had non-accounting degrees. The number of hires with a bachelor's degree has been decreasing since 2007, while the corresponding numbers of graduates with master's degrees has been increasing over the same period. A survey of accounting departments that participated in the study indicated that 70 per cent already included IFRS material in the courses they offered to their students. All schools surveyed also responded that they would include some IFRS material in their curriculum by 2013. As of January 2011, the Uniform Certified Public Accountant (CPA) Examination in the United States was revised to include, among other topics, IFRS.

24. As of August 2011, the American Institute of Certified Public Accountants, the National Association of State Boards of Accountancy and Prometric started offering the Uniform CPA Examination outside of the United States in Bahrain, Brazil, Japan, Kuwait, Lebanon and the United Arab Emirates. The National Association of State Boards of Accountancy²⁰ noted that the Uniform CPA Examination was being offered internationally in response to a rapidly escalating international demand for United States CPA licensure.

25. In response to the European Union International Accounting Standards Directive of 2002, seven European PAOs launched the Common Content Project with a view to harmonizing their respective professional qualification requirements by 2007.²¹ Over time, membership in the project has grown to nine PAOs from six European Union member States. It is also useful to note that membership to the Project is open to all PAOs around the world. The Project has produced the Common Content Qualification Requirements articulating what needs to be fulfilled by a programme for the qualification of an entry level professional accountant.

26. In view of the trend towards the adoption and implementation of international standards, the need for harmonization of an internationally accepted qualification for professional accountants and auditors has become more evident. The growing adherence to IESs has a positive effect in the improvement of comparability of qualifications. Nowadays, mobility of professionals across borders has increased, especially among developed countries.

27. As an example, the North American Free Trade Agreement facilitated the emergence of a mutual recognition agreement between Canada, Mexico and the United States.²² This agreement, initially signed in 2002 and again renewed for five years in 2008, allows for accounting professionals to practice across borders²³ after fulfilling examination (Chartered Accountancy Reciprocity Examination in Canada, Mexquex in Mexico, Iquex in the United States) and experience requirements put in place by the country where mutual recognition is sought. Since the inception of the mutual recognition agreement, 90 per cent of all applicants are Canadians wishing to practice in the United States, followed by 7 per cent of United States applicants wishing to practice in Canada and 3 per cent of Mexicans wishing to practice either in the United States or Canada.²⁴

²⁰ See <http://nasba.org/international/international-exam/>.

²¹ See www.commoncontent.com.

²² Peek L, Roxas M, Peek G, McGraw E, Robichaud Y and Villarreal JC (2007), NAFTA professional mutual recognition agreements: Comparative analysis of accountancy certification and licensure, *Global Perspectives on Accounting Education*, 4:1–27.

²³ See <http://nasba.org/international/mra/>.

²⁴ Sa C and Gaviria Patricia (2012), Asymmetrical regionalism in North America: The higher education sector since NAFTA Norteamérica, *Revista Académica del CISUN-UNAM*, 7(2):111–140.

28. In March 2008, the Certified General Accountants Association of Canada and CPA Australia entered into a mutual recognition agreement with a term of five years.²⁵ In March 2013, the second Canada–Australia Roundtable on Foreign Qualification Recognition²⁶ gathered representatives from government, professional regulatory authorities, employers, academia and immigrant-serving organizations to discuss current issues in qualification recognition, share best practices, strengthen professional linkages, and work towards enhanced labour mobility. As a result, the mutual recognition agreement between the Australian and Canadian counterparts was resigned. In Australia, the Institute of Chartered Accountants²⁷ has reciprocal agreements with eight institutions.

29. In its Green Paper on Audit Policy,²⁸ the European Commission proposed a European passport for auditors which will allow those registered in one member State of the European Union to be able to provide audit services in another one without a need for further authorization.

III. Challenges

A. Meeting the need for qualified human resources

30. As previously mentioned, in the last few years there has been a proliferation of international standards and codes related to corporate reporting, an increasing trend towards their adoption, as well as the emergence of new institutions at the national, regional and international levels. However, their benefits are not attained until these new requirements are properly applied and the institutions are efficiently managed. Accordingly, highly qualified human resources are a key component towards a successful implementation of international standards and codes. The efficient application of international standards requires a high level of human capacity that can be developed through education, training and experience.²⁹ However, in many countries these elements are of low quality and lack alignment with international best practices. A well-designed action plan for capacity-building requires participation from all sectors including government, PAOs, academia, standard setters, preparers and users of financial statements. In this sense, coordination among all key stakeholders is crucial.

31. When determining the human capacity needs in a country it is important to realize that they will vary depending on the prevailing type of companies (listed, SMEs, microenterprises, and the like) and the kind of standards applicable to each category of companies. For example, a country with a large number of listed companies, following IFRS and ISAs, will need a larger number of accountants, auditors, appraisers and actuaries than a country with just few listed companies and a majority of SMEs and microenterprises.

32. During the ADT pilot tests conducted by UNCTAD ISAR in 2011, countries expressed that not only do they not have enough people trained to apply international requirements, but they also cannot readily identify the exact number of professionals available and have difficulties to determine what would be the required number. For

²⁵ See <http://www.cpaaustralia.com.au/cps/rde/xchg/cpa-site/hs.xsl/become-started-affiliations-international-affiliations-cga-canada.html>.

²⁶ See <http://www.cic.gc.ca/english/departement/media/releases/2013/2013-03-23.asp> and <http://www.ppforum.ca/sites/default/files/Annex%201.pdf>.

²⁷ See <http://www.charteredaccountants.com.au/The-Institute/Migration-assessment/Recognised-accounting-qualifications.aspx>.

²⁸ See <http://www.revizorska-komora.hr/pdf/IFAC-FEE/05-EU-Passport.pdf>.

²⁹ See http://www.worldbank.org/ifa/LessonsLearned_ROSC_AA.pdf.

instance, results of the Manpower Group's eighth annual Talent Shortage Survey³⁰ in 2013 have shown that the accounting and finance staff category is for the third year in a row ranked among the top 10 jobs hardest for employers to fill in the United States and worldwide.

33. The shortage of accountants is worse in developing countries that do not have full capacity to train qualified professional accountants. Some developing countries rely on neighbouring countries or other organizations at the international level to provide training and certification possibilities, such as the Association of Chartered Certified Accountants. Indeed, IFAC in its PAO Global Development Report highlights the lack of capacity and shortage of accountants as key problems in African countries.³¹

34. The Organization for the Harmonization of Business Law in Africa³² is composed of 17 member States in West and Central Africa. This region continues to have an acute shortage of qualified professional accountants. The Organization's secretariat is undertaking reforms which will start by reviewing the accessibility of professional accountancy training as well as setting up efficient and effective regulatory mechanisms for monitoring certification.³³ The West African Economic and Monetary Union Commission³⁴ is working on the accounting syllabus with a view to harmonizing the content with accounting institutes in other regions in the world and ensuring it meets the member countries requirements.³⁵

35. An additional complication is that in many developing countries the few professionals who have attained the required qualification to compete at the international level do not have enough incentives to remain in their countries of origin. For instance, in Malaysia the shortage of professional accountants is aggravated due to the low salaries which prompt qualified professionals to emigrate to neighbouring countries such as Singapore³⁶ or Australia³⁷ where salaries are more attractive. In fact, in Australia accountants represent the main occupation group for which Malaysian nationals have been granted a permanent visa.

B. Strengthening professional accounting organizations

36. IFAC plays a key role in working on capacity-building and monitoring the development of PAOs through its PAO Development Committee.³⁸ Currently IFAC has 173 members and associates in 129 countries.³⁹ PAOs focus efforts in developing capable and competent accountancy professionals, promoting professional and ethical standards and

³⁰ See <http://www.manpowergroup.us/campaigns/talent-shortage-2013/> and also <http://www.forbes.com/sites/jeffthomson/2013/05/30/why-accounting-and-finance-pros-are-so-difficult-to-hire/>.

³¹ IFAC (2012), "PAO Global Development Report", available at http://www.ifac.org/sites/default/files/publications/files/GDR%20Report_0.pdf.

³² See <http://www.ohada.com>.

³³ See <http://www.worldbank.org/en/news/press-release/2012/06/26/world-bank-provides-us15-million-grant-to-build-business-and-commercial-laws-in-the-ohada-zone>.

³⁴ See www.uemoa.int.

³⁵ See http://www-wds.worldbank.org/external/default/WDSPContentServer/WDSP/AFR/2012/08/08/5D3D7388AA32D57285257A540037C4BD/1_0/Rendered/PDF/ISR0Disclosabl008201201344420548424.pdf.

³⁶ See <http://www.thejakartaglobe.com/archive/malaysias-brain-drain-hinders-its-economic-progress/>.

³⁷ See http://www.immi.gov.au/media/statistics/country-profiles/_pdf/malaysia.pdf.

³⁸ See <http://www.ifac.org/about-ifac/professional-accountancy-organization-development-committee>.

³⁹ See <http://www.ifac.org/about-ifac/membership>.

conducting education and training activities as well as quality review, investigation and discipline of their members.

37. The PAO Development Committee promotes the execution of mentoring activities by which a developed PAO works directly with one less developed, to transfer knowledge and expertise in the main challenge areas of awareness-building, internal organizational strengthening and the provision of vital professional activities to establish and develop a sound accountancy profession within a country. For example, the Society of Certified Accountants and Auditors of Kosovo signed a twinning agreement with the Dutch Institute for Registered Professional Accountants and Auditors in 2007⁴⁰ and in 2009 the Society became a full member of IFAC.

38. IFAC has two statuses for PAOs, full members or associates, depending on their ability to meet the Statements of Membership Obligations (SMOs).⁴¹ The SMOs establish obligations to support the adoption and implementation of international standards. One of the activities that IFAC performs is the member body compliance programme, by which annual SMO action plans are developed.

39. However, in many countries PAOs are not operating at full capacity due to the lack of financial and/or human resources, as well as low sustainability and failure to operate as independent entities.

40. The PAO Global Development Report shows that the PAO development level varies around the world. In small developing countries the sustainability of a professional body becomes an issue due to low membership that cannot support the required costs to run a sound PAO. In addition, in some Latin American countries the existence of an excessive number of professional associations results in the profession being fractured, disorganized and underfunded.⁴²

41. A big challenge identified by IFAC in Latin American countries is the lack of a regulatory framework that facilitates the development of the accounting profession and PAOs. Membership in many Latin American countries is voluntary because it is not required by law to belong to a PAO for practicing as an accountant or auditor. For example, the PAO Global Development Report indicates that in Costa Rica the local law prevents the PAO from requiring candidates to pass a professional examination to attain membership.

42. Regional accountancy bodies can play an essential role in capacity-building. For example, in November 2012, PAFA organized the conference Strengthening Professional Accountancy Organizations for Results.⁴³ One of the key themes identified for follow-up action was the creation of a regional knowledge centre on corporate financial reporting with the objective of sharing knowledge and learning from other centres, such as the World Bank's Centre for Financial Reporting Reform.⁴⁴ In Asia, the Confederation of Asian and Pacific Accountants⁴⁵ and the World Bank are carrying out a programme to improve CPD systems in PAOs in Mongolia, the Philippines and Viet Nam.

⁴⁰ See <http://www.ifac.org/news-events/2012-02/mentoring-insights-mentor-perspective>.

⁴¹ See <http://www.ifac.org/publications-resources/statements-membership-obligations-smos-1-7-revised>.

⁴² Fortin H, Hirata Barros AC and Cutler K (2010), *Accounting for Growth in Latin America and the Caribbean: Improving Corporate Financial Reporting to Support Regional Economic Development*, The World Bank, Washington DC.

⁴³ See http://www.pafa.org.za/documents/Strengthening_Professional_Accountancy_Organizations_for_results_report.pdf.

⁴⁴ See <http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/ECAEXT/EXTCENFINREPREF/0,,menuPK:4152198~pagePK:64168427~piPK:64168435~theSitePK:4152118,00.html>.

⁴⁵ See <http://www.capa.com.my/article.cfm?id=634>.

C. Improving education and training

43. In an effort to develop an adequate number of qualified human resources able to properly implement standards, the IAESB has been providing support and guidance through the IESs.⁴⁶

44. IESs have become the international reference for human capacity requirements of professional accountants and auditors. As mentioned before, IESs 1–6 set requirements to achieve qualification for a professional accountant; IES 8 sets the competence requirements for the audit professional and builds on the qualification requirements for a professional accountant; IES 7 establishes the requirements on CPD. Some of the requirements will change with the revised standards. For instance, in the redrafted IES 1 the entry level requirement has been amended to allow for criteria other than an entry level equivalent to a university degree.⁴⁷

45. The scope of IESs as standards for professional accounting education is restricted to the areas of accountancy education that fall under the responsibility of the accountancy profession. Thus, universities are not compelled to comply with them.

46. There are several players participating in the education and training of professional accountants. In addition, the path for becoming a professional accountant or auditor differs depending on the system in place in each country. In some countries, the process starts at the university with an accountancy degree and continues with additional requirements related to professional accounting education, years of experience and formal assessment (for example, professional examination). In other countries, degrees in other areas such as business, economics and the like, can be considered. In other countries the accounting profession is relied on to carry out the education and training activities. Most countries have systems in which universities and PAOs are providers of accountancy education.

47. Nevertheless, the Reports on the Observance of Standards and Codes on accounting and auditing⁴⁸ show that many developing countries fall short in terms of the requirements that are considered good practice at the international level for ensuring that accountants and auditors are sufficiently qualified. Additionally, according to IFAC, most countries in Latin America require only a university degree in accounting to practice as an accountant or auditor. In this region there is a need for raising awareness among legislators, ministries of education, universities, the business community and the profession on the importance of developing a professional certification system aligned with the IESs.

48. The Global Accounting Education 2012 study⁴⁹ shows that in some emerging and developing countries the quality of education is low, there is a lack of knowledge of international standards, professional ethics are not fully integrated in the education system, and the professional examination is not in line with international best practices.

49. In order to provide high-quality education it is necessary to ensure that courses are taught by qualified professors. Several challenges arise when creating and maintaining a high-level education system, including employing and retaining highly qualified academic staff.

⁴⁶ See <http://www.ifac.org/publications-resources/handbook-international-education-pronouncements-2010-edition>.

⁴⁷ See <http://www.ifac.org/sites/default/files/publications/files/IES%201%20Final%20February%201%202013.pdf>.

⁴⁸ See http://www.worldbank.org/ifa/rosc_aa.html.

⁴⁹ Karreman GH, *Global Accountancy Education 2012: Dynamics of Global Accountancy Education*, (forthcoming).

50. The ageing of the general academic population has been identified as a problem in European countries.⁵⁰ Universities in Australia⁵¹ and the United Kingdom⁵² have highlighted an ageing problem for accounting professors.

51. In addition, universities in Australia are encountering difficulties in filling vacancies in accounting and finance. The reasons identified include low salary levels, large class sizes, heavy teaching and preparation loads, and limited time and support for research. Furthermore, in developing countries low salaries of academics in accounting contribute to the lack of research and low quality of teaching.

52. According to the World Bank,⁵³ in Latin America the most pressing constraint to better classes in international standards is the lack of qualified professors and literature in the local language. The language barrier deters the possibility of academic staff to attend seminars and events at the international level and impedes cooperation among academic institutions and exchange programmes.

53. In non-English-speaking developing countries, the lack of English language proficiency among academics and students represents a hurdle in an environment in which the internationalization of the accounting field represents the main trend. For example, the study *Development of Accounting Education and Accreditation in Thailand 2000–2010*⁵⁴ found evidence of an acute shortage of qualified accountants with proficiency in the English language in the country.

54. Concerning the code of ethics, developing countries do not seem to include a separate subject on ethics in the accounting education programmes,⁵⁵ which hampers the common understanding of professional values around the world. For instance, a recent study in Nigeria⁵⁶ shows that the accounting curriculum has insufficient coverage of courses in ethics. A study in Turkey⁵⁷ found that ethics education, in the form of raising various ethical situations in class and discussing alternative solutions, would help students to become aware of ethical problems they may face in professional life. Findings also show that regulators and faculty need to improve educational models and techniques to be effective in ethics education by considering other factors such as family, culture and social environment.

⁵⁰ European Commission and Eurydice (2008), *Higher Education Governance in Europe: Policies, Structures, Funding and Academic Staff*, Eurydice, available at http://eacea.ec.europa.eu/education/eurydice/documents/thematic_reports/091EN.pdf.

⁵¹ University of South Australia and Institute of Chartered Accountants in Australia (2010), *Accounting education at a cross road in 2010*, eds. Evans E, Burritt R and Guthrie J, Institute of Chartered Accountants in Australia, Sydney, available at http://www.charteredaccountants.com.au/~media/Files/News%20and%20media/Reports%20and%20insights/Accounting_Education_at_a_crossroad_2010%20Publication_Web.ashx.

⁵² Beattie V and Smith SJ (2012), "Today's PhD Students – Is there a future generation of accounting academics or are they a dying breed? A UK Perspective." Institute of Chartered Accountants of Scotland, available at <http://icas.org.uk/smith-beattie/>.

⁵³ Fortin H, Hirata Barros AC and Cutler K (2010), *Latin America and the Caribbean: Improving Corporate Financial Reporting to Support Regional Economic Development*, The World Bank, Washington DC.

⁵⁴ See http://www.afaanz.org/openconf/2012/modules/request.php?module=oc_program&action=view.php&id=124.

⁵⁵ Karreman GH (2007), *Global Accountancy Education 2007: Trends in Global Accounting Education*, eds. Ahern Jr JT, Kuijl JG and Marrian IFY, Royal NIVRA, Amsterdam.

⁵⁶ Okafor RG (2012), Accounting education in Nigerian universities: Challenges and prospects, *Journal of Economics and Sustainable Development*, 3(14):205–212.

⁵⁷ Karaibrahimoğlu YZ, Erdener E and Var T (2009), Ethical behaviour in accounting: Some evidence from Turkey, *African Journal of Business Management*, 3(10):540–547.

55. Regardless of the education system used, there are global concerns related to the quantity and quality of new entrants to the profession,⁵⁸ weakness in skills,⁵⁹ professional scepticism and failure to keep up with advances in technology and the growing complexity of global business. The summary report of findings of audit inspections published by IFIAR⁶⁰ highlighted as an issue the lack of professional scepticism by auditors when planning and conducting an audit.

56. In addition, international standards are based on principles, therefore when exercising their functions professional accountants and auditors need to make use of their professional judgment in order to adequately apply such standards to particular situations.

57. The United States Pathways Commission⁶¹ on Accounting Higher Education created by the American Accounting Association and the American Institute of Certified Public Accountants recognizes that the change toward more principle-based standards requires more judgment, which may lead to a wider variability in decisions. Therefore, responsible judgment becomes even more important as well as ethical behaviour consistent with the accounting profession's responsibilities.

58. The pace of change in the business environment and financial information creates huge competitive pressure and requires accountants to be lifelong learners. As discussed above, the Sarbanes–Oxley Act has had global implications. This is also reflected in the area of education and training of accountants. For example, the École des Hautes Études Commerciales de Paris covers the Sarbanes–Oxley legislation in its mandatory master of business administration financial accounting course.⁶² In Australia,⁶³ the knowledge, skills and values considered essential for being a chartered accountant include: being informed of the latest international, disciplinary and business knowledge; being capable of solving problems in an innovative manner; being knowledgeable on information technology systems; being a team worker; possessing an ethical and professional behaviour.

59. Initiatives to improve education are being carried out at the national level. For instance, the United States Pathways Commission on Accounting Higher Education issued a report⁶⁴ with seven recommendations and actions for educational pathways to engage and retain the strongest possible community of students, academics, practitioners and other knowledgeable leaders in the practice and study of accounting. Another example is given by the International Association for Accounting Education and Research⁶⁵ which facilitates

⁵⁸ University of South Australia and Institute of Chartered Accountants in Australia (2012), *Emerging pathways for the next generation of accountants*, eds. Evans E, Burritt R and Guthrie J, Institute of Chartered Accountants in Australia, Sydney.

⁵⁹ According to IES 3 (professional skills and general education), the skills professional accountants require are grouped under five main headings: (a) intellectual skills, (b) technical and functional skills, (c) personal skills, (d) interpersonal and communication skills and (e) organizational and business management skills.

⁶⁰ International Forum of Independent Audit Regulators (2012), "2012 Summary Report of the Inspections Findings", 18 December, available at <https://www.ifiar.org/Reports.aspx>.

⁶¹ The Pathways Commission (2012), "The Pathways Commission: Charting a National Strategy for the Next Generation of Accountants", American Accounting Association and American Institute of Certified Public Accountants, available at http://commons.aahq.org/files/0b14318188/Pathways_Commission_Final_Report_Complete.pdf.

⁶² *Financial Times* (2012), "Accountancy: It is almost like a physical science", 18 June, available at <http://www.ft.com/intl/cms/s/2/2676dd3a-aa59-11e1-899d-00144feabdc0.html#axzz2cmeDQmos>.

⁶³ *Idem* footnote 58.

⁶⁴ *Idem* footnote 62.

⁶⁵ See http://www.iaaer.org/research_grants/index.htm.

three major research programmes to inform IASB, IAESB, and IAASB. This Association also supports research opportunities for early-stage accounting researchers.

60. In many countries the accounting curriculum tends to be of uneven quality and not in line with some of the important developments in the field and international demands. For example, the Report on the Observance of Standards and Codes from Kenya 2010⁶⁶ highlights that accounting and auditing curricula need to be further harmonized among universities and do not incorporate all international education standards. The ISAR accounting model curriculum⁶⁷ and IESs provide good guidelines in developing and improving local requirements. The World Bank⁶⁸ used the accounting model curriculum to identify gaps in some Latin American countries.

61. In this regard, national coordination is essential. Many countries, as shown in the ISAR ADT pilot tests,⁶⁹ have universities with inconsistent accountancy curricula. As a natural consequence of not achieving harmonization at the national level, at the international level there is a high diversity of curricula.

62. Some countries have a national association of faculties of accounting with the objective of coordinating educational and curricular issues. However, there is still a lot of work to do in this area to attain harmonization. For example, in Mexico the National Association of Faculties and Schools of Accountancy and Administration⁷⁰ groups institutions that offer undergraduate and postgraduate programmes in accountancy to develop joint education curriculums. It also promotes training and updating of professors. In the United Kingdom the British Accounting and Finance Association⁷¹ promotes by means of conferences, discussion groups, and the like, increased exchange amongst teachers, accounting practitioners and others to advance the knowledge and understanding of education and research in accounting and finance. In the United States the American Accounting Association⁷² promotes worldwide excellence in accounting education, research and practice.

63. Regional and international cooperation can play a critical role in facilitating capacity-building activities and the sharing of knowledge. An example of regional cooperation is that between the South African Institute of Chartered Accountants (SAICA) and the Institutes of Chartered Accountants in Namibia, Swaziland and Zimbabwe, where most of the professional accounting examination is common in content, except for the tax and any law aspects which are tailor-made to reflect countries' positions. An example of international cooperation is the adoption of the CICA competency framework by SAICA in 2008 as a base for a South African competency framework.⁷³ SAICA was thus able to take advantage of the extensive research that CICA has done in this regard.

64. In addition, a common difficulty encountered by developing countries is the lack of coordination between the ministries of education and the PAOs, which creates discrepancies in the requirements that need to be satisfied for certification and the subjects taught at the university level. For example, the Report on the Observance of Standards and Codes from Zimbabwe 2011⁷⁴ states that there is no coordination of university education

⁶⁶ See http://www.worldbank.org/ifa/rosc_aa_kenya2010.pdf.

⁶⁷ See http://unctad.org/en/Docs/c2isar21_en.pdf.

⁶⁸ Idem footnote 53.

⁶⁹ See http://unctad.org/en/Docs/ciiisard59_en.pdf.

⁷⁰ See <http://www.anfeca.unam.mx/inicio.php>.

⁷¹ See <http://bafa.group.shef.ac.uk/index.html>.

⁷² See <http://aaahq.org/about.cfm>.

⁷³ See <http://www.accountancysa.org.za/documents/ASAJune09pgs1-Cover-13.pdf>.

⁷⁴ See [http://www.worldbank.org/ifa/rosc_aa_zimbabweZimbabwe--ROSC%20A&A%20\(Final-](http://www.worldbank.org/ifa/rosc_aa_zimbabweZimbabwe--ROSC%20A&A%20(Final-)

programmes with professional qualifications and regulation which creates a substantial gap between university accounting graduates and required skills to serve in the corporate sector. In a conference organized by the Vietnam Association of Certified Public Accountants and the Confederation of Asian and Pacific Accountants on the vital role of PAOs in Viet Nam⁷⁵ it was discussed that regulators have not paid adequate attention to professional accounting and auditing education. There has been no collaboration between the Ministry of Finance and the Ministry of Education and Training regarding training accountants and auditors at higher education level and postgraduate level.

65. The challenge for governments is to ensure quality and consistency in education generally. There exist general requirements applicable to all universities within a country, such as the Bologna requirements,⁷⁶ and there is also accreditation of some universities; for example, in the United States 168 universities have an accreditation in business and accounting with the Association to Advance Collegiate Schools of Business.⁷⁷ The Higher Education Governance in Europe Report from 2008 indicates that quality assurance in higher education has been the subject of national reforms and initiatives over the last ten years in many European countries as part of the Bologna process. The report also shows that in most European countries individual evaluation of academic staff is an integral part of internal quality assurance procedures.

66. So far this paper has focused its attention on the certification and quality assurance of accountancy professionals. However, monitoring, oversight and discipline mechanisms also require competent professionals to conduct these activities. In this regard, regulators play an essential role in ensuring high-quality reporting. For instance, in Belgium the Financial Services Market Authority carries out training for new services and includes examination and experience requirements as part of the recruitment process of new staff members.⁷⁸

67. Other participants in the reporting chain such as actuaries and appraisers also require keeping up to date. Thus, the existence of training opportunities and CPD courses are necessary to make these other participants aware of developments that affect the accounting and reporting area, as well as regulation concerning ethics and professional behaviour. For example, some societies of actuaries⁷⁹ have established CPD requirements for their members. In addition, in the case of appraisers some institutes provide continuing education and training.⁸⁰

68. Concerning professionals in non-financial reporting, training and certification programmes are becoming available, especially on topics such as corporate governance. For example, in the United Kingdom the Institute of Directors⁸¹ has developed a professional qualification for directors, and to maintain the certification members have to fulfil CPD requirements. Members are also required to provide on an annual basis a signed declaration to confirm compliance with the Code of Conduct in the context of CPD. The Egyptian Institute of Directors⁸² delivers a wide variety of professional certificate programmes and courses in corporate governance targeted at board members and senior managers. Other

%20February%2015,%202011).pdf.

⁷⁵ See http://www.capa.com.my/images/capa/VACPA-CAPA_PAODEv_ConfBook_Aug2012_FINAL.pdf.

⁷⁶ See <http://www.ond.vlaanderen.be/hogeronderwijs/bologna/>.

⁷⁷ See <http://www.aacsb.edu/accreditation/>.

⁷⁸ See <http://www.fsma.be/en/Doormat/Publications/Annual%20reports.aspx>.

⁷⁹ See <http://www.soa.org/Professional-Development/Cpd-Requirement/default.aspx>.

⁸⁰ See <http://www.appraisalinstitute.org/airesources/join.aspx>.

⁸¹ See <http://www.iod.com/home/training-and-development/chartered-director/default.aspx>.

⁸² See <http://www.eiod.org/TrainingDevelopment.aspx>.

efforts in this area include the corporate social responsibility retreat⁸³ organized by UNCTAD with a view to facilitating peer-to-peer learning for corporate social responsibility managers.

D. Promoting continuing professional development

69. The rapid and continuous changes in the international standards require professionals to continuously update their knowledge. Therefore, CPD needs to be of high quality and widely available for accountancy professionals and others in the reporting chain. IESs require CPD for maintaining the licence/certification. In Sri Lanka the Institute of Chartered Accountants issued a handbook⁸⁴ with information concerning the obligation to comply with CPD as of 2007.

70. The content of CPD programmes should consider current international developments and requirements. This poses challenges because PAOs need to continuously update their programmes.

71. However, the PAO Global Development Report emphasizes that CPD is one of the least developed areas and PAOs in developing countries do not have the operating capacity or the legal force to ensure that their members fulfil this requirement. Findings from a study on CPD in Asia⁸⁵ show that there are regional differences in perceptions in terms of the quality, appropriateness and satisfaction with the CPD undertaken. Further challenges were related to the cost of undertaking CPD activities, particularly for respondents in smaller organizations. In emerging economies the proximity was an important consideration when choosing a CPD activity.

72. In some countries where PAOs have not enough capacity to include all professionals in the CPD programmes, other institutions registered with the PAO carry out these training activities. For example, the Mexican Institute of Public Accountants has a list that indicates which institutions are authorized for CPD activities.⁸⁶ CICA⁸⁷ in Canada provides examples of verifiable studies that can be taken into consideration. Also, the National Association of State Boards of Accountancy⁸⁸ in the United States has a national registry to recognize CPD sponsors that provide CPD programmes in accordance with nationally recognized standards.

73. PAOs also face difficulties in measuring and verifying the CPD undertaken. In this regard, the IAESB sponsored a study in 2008⁸⁹ that gathered information on different CPD

⁸³ See <http://www.globalcsrretreat.org/>.

⁸⁴ See http://222.165.133.185/NewLogin/Members/CPD_Handbook.pdf.

⁸⁵ de Lange P, Jackling B and Suwardy T (2012), Continuing professional development in the accounting profession: Evidence from the Asia Pacific region, in: Potter B and Birt J, eds., *Proceedings of Accounting and Finance Association of Australia and New Zealand Conference*, Carlton, Australia, 1–3 July, 1–30, available at http://www.afaanz.org/openconf/2012/modules/request.php?module=oc_program&action=view.php&id=293.

⁸⁶ See <http://imcp.org.mx/certificacion/cumplimiento-obligatorio-de-la-nepc>.

⁸⁷ See <http://www.cica.ca/about-cica-and-the-profession/protecting-the-public-interest/minimum-cpd-and-insurance-requirements/item62062.aspx>.

⁸⁸ See <http://www.learningmarket.org/page.cfm/Link=10/t=m/goSection=7>.

⁸⁹ IFAC (2008), “Approaches to continuing professional development (CPD) measurement”, information paper available at <http://www.ifac.org/sites/default/files/publications/files/approaches-to-continuing-pr.pdf>.

measurement techniques used by PAOs. IAESB expects that more PAOs currently using input-based measurement methods will move towards limited output-based approaches.

E. Improving public-sector accounting and education

74. In the public sector, challenges are often more difficult than in the private sector. The level of adherence to the SMO 5 that deals with the public sector is low. Only a few PAOs have created committees that issue recommendations and interact with the government to improve accountability, for example by implementing IPSAS.⁹⁰ The public sector remains in a sense out of scope for the majority of PAOs. This could be the reason for the low rate of adoption of IPSASs worldwide.⁹¹ According to IFAC only fifteen national governments, bodies and organizations have adopted or have plans to adopt IPSASs. The application of the ADT in pilot countries also confirms that there is a low rate of adoption.

75. A key issue is the lack of training. A survey on accounting and reporting by central governments conducted by PricewaterhouseCoopers Global⁹² identified the lack of trained staff and information technology system requirements as the main challenges to attain transition to accrual accounting.

76. The shortage of professional accountants is more severe in this sector due to additional deficiencies, such as lower salaries than in the private sector. In South Africa,⁹³ the National Treasury created the Chartered Accountants Academy hosted by the Office of the Accountant General, with the objective of making the public service an attractive option for young professionals. The National Treasury aims at developing and retaining those who qualify in the public sector and expanding the programme to other public institutions. One major challenge the country is currently facing is the negative perception that young professionals have of the public sector.

IV. Conclusions

77. To develop competent and well trained human resources it is necessary to strengthen and harmonize the education system and to incorporate international requirements, particularly in developing countries. The quality of professional accounting education needs to be improved and for this purpose the IESs and UNCTAD ISAR model curriculum represent good references. Additionally, sound systems of certification, CPD, quality assurance, discipline and sanctions are required to ensure proper implementation of standards. The language barrier in non-English-speaking developing countries needs to be addressed. Other participants in the reporting chain, such as regulators, appraisers, actuaries, corporate social responsibility managers, and the like, also need to undertake training activities. The public sector requires more training and involvement of PAOs. Finally, regional collaboration is key to overcoming the challenges that countries are

⁹⁰ See <http://www.ifac.org/publications-resources/2013-handbook-international-public-sector-accounting-pronouncements>.

⁹¹ See <https://www.ifac.org/sites/default/files/uploads/IPSASB/IPSASB%20April%202013.pdf>.

⁹² PricewaterhouseCooper (2013), "Towards a new era in government accounting and reporting", April, available at http://www.pwc.com/im/en/publications/assets/pwc_global_survey_on_accounting_and_reporting_by_central_governments.pdf.

⁹³ See <http://www.accountancysa.org.za/resources/ShowItemArticle.asp?ArticleId=2504&Issue=1119>.

facing. By working together on a regional basis, countries could benefit from economies of scale.

78. Delegates at the thirtieth session of ISAR may wish to consider the issues outlined in this note as well as the following questions:

- (a) What is the best approach to reduce the shortage of professional accountants?
 - (b) What mechanisms are required to facilitate coordination at the national, regional and international levels in order to synergize capacity-building?
 - (c) What is needed to align national accounting curricula with international requirements?
 - (d) What are some of the mechanisms that need to be in place to ensure high-quality continuing professional development?
 - (e) What is the best approach to building human capacity for new areas of monitoring, oversight and discipline?
 - (f) What are some of the ways and means for identifying and tackling the main human capacity-building challenges in relation to accounting and financial reporting by SMEs?
 - (g) What are the main human capacity-building challenges in relation to the public sector and how could these be addressed?
 - (h) How could the ADT facilitate the assessment of progress and sharing of best practices, in particular with respect to human capacity-building?
-