Accounting and Auditing - Report on Observance of Standards and Codes (AA-ROSC) - World Bank

Objective and features

1. Objective
AA-ROSC aims to:
- analyze the compatibility of national accounting and auditing standards with international standards (International Financial Reporting Standards [IFRS] and International Standards on Auditing [ISAs]), determine the degree to which applicable accounting and auditing standards comply, and assess strengths and weaknesses of the institutional framework in supporting high-quality financial reporting; and
- assist the country in developing and implementing a country action plan for improving institutional capacity that strengthens the country’s corporate financial reporting regime.

2. Institutional coverage
National corporate sector, including state-owned enterprises.

3. Technical coverage
The Accounting and Auditing (AA) modules cover the following:
- Module A: Accounting and Auditing Standards analyze financial reporting standards and auditing standards analysis. It is designed to help compare (1) national financial reporting standards with IFRS, and (2) national auditing standards with ISAs.
- Module B: Institutional Framework for Corporate Financial Reporting primarily covers institutions such as commercial enterprises (including SMEs), listed companies, banks, financial institutions, audit regulation institutions, quality assurance and public sector performance, and accounting and auditing standard-setting institutions.
- Module C: Observed Reporting Practices and Perceptions aims to corroborate the findings from the observations of AA-ROSC (Module A), and the institutional framework for corporate financial reporting (Module B) regarding the financial statements issued and reports from the regulators for corporate financial reporting as a basis for the country’s corporate financial reporting regime.

4. Application method
Custodian.

Methodology

5. Methodology
The approach for each module of AA-ROSC is as follows:
- Module A consists of 12 sub-questions. Financial reporting standards analysis and auditing standards analysis (Module A.1) provide a suite of checklists to help AA-ROSC teams in their assessment of key areas of divergence between national financial reporting standards and international standards, or national GAAP (Generally Accepted Accounting Principles) and IFRS, and national auditing standards and ISAs, respectively. Position trees are included in Module A.1 and A.2 to assist the teams in determining when and how to use the checklists.
- Module B comprises time questionnaires which attempt to assess the key areas of corporate financial reporting and audit framework of the country, using internationally recognized standards or principles and other examples of good practice as benchmarks.
- Module C assesses the quality of financial reporting and audit practices through three essential financial statements review, review of regulatory findings, and perceptions survey.

Seven performance indicators of ROSC focus on the aspects of accounting and auditing systems that are (1) ‘core’ or essential, (2) measurable and observable in a relatively objective manner, and (3) relevant to most partner countries. The AA-ROSC report includes a table summarizing the score attributable to each indicator and related sub-indicators. A detailed matrix for ratings and explanations is included, where the professional judgment will be applied by the assessment team. The indicators should be read in conjunction with the AA-ROSC report.

6. Benchmarking system
AA-ROSC was originally a qualitative assessment. During the 2012 revision of the tool, this includes a scoring system was introduced. The indicators follow a ‘progression matrix’ approach, outlining milestones toward international good practice using the following rating scales:
- Rating scale on hard requirements are applied for financial reporting standards analysis and auditing standards analysis on a scale of 1 to 4, where 1 indicates substantial adherence to the standards and 4 indicates no adherence to the standards.
- Principle-based rating criteria assess the strength of institutional framework for corporate financial reporting on a scale of 1 to 4, where 1 indicates a poorly developed framework and 4 indicates a well-developed framework.
- Quantitative rating criteria assess financial reporting and auditing standards on a scale of 1 to 4, where 1 indicates a poorly developed framework and 4 indicates an adequately developed framework.

7. Linkage to PEFA framework
AA-ROSC provides a drill-down assessment of the financial reporting practices of SOEs, among other things.

Development and use

9. Development and coordination
AA-ROSC is one of the twelve standards and codes developed jointly by the World Bank and IMF. A number of amendments and updates of the tool have been made. The first detailed revision was published in 2012 and subsequent revision in 2015, wherein accounting and auditing performance indicators were introduced to provide a snapshot of the essential aspects of corporate sector accounting and auditing practices in partner countries and a mechanism for monitoring program progress over time.

The PEFA framework was consulted at the time of development of the AA-ROSC indicators in 2014 to develop a similar set of indicators to benchmark countries against specific criteria. During tool development, the International Accounting Standards Board and other financial institutions were consulted.

National accounting standards and professional accounting firms are the key counterparts during the assessment, to see their perspectives and use their documents. Many audit firms conduct a comparison of national accounting standards if the reports are not tailored to the firms are consulted to discuss the results of the assessment.

10. Assessment management
The three stages involved in conducting an AA-ROSC are as follows:
- Initiation stage. A scoping mission helps in initiating the engagement process with counterparts (national account standard setters, professional accountancy firms) and stakeholders. A concept note is prepared which covers the content of AA-ROSC objectives and scope of AA-ROSC, and work plan for conducting the assessment.
- Implementation stage. Data is collected through the questionnaires. The questionnaire under Module A is filled by the task team. The questionnaire under Module B is filled by the country counterparts. Some parts of the questionnaire under Module C are filled in by the task team and other parts are distributed to a number of users of information in the country. A due diligence is performed, including one-on-one meetings with counterparts and stakeholders, as well as roundtable or focus group discussions with stakeholders, as appropriate. Following the due diligence, the ROSC AA team prepares the draft report, Reeves findings, and makes policy recommendations to help the country enhance its A&A framework and public oversight, and accounting and auditing standard-setting institutions.
- Completion stage. A dissemination workshop is held to present the findings and makes policy recommendations to help the country enhance its A&A framework.

11. Uses by the government and members of the PFM community
AA-ROSC is used by governments for transparent, high-quality, and comparable financial reporting to gain investors’ and lenders’ trust. Also, in many countries, SOEs partly rely on their financial reporting standards to benchmark them to the new Sustainable Development Goals (SDGs). Some of the development and financial institutions also refer to the ROSC reports to guide their funding decisions. AA-ROSC is commonly used in the private sector, and in some cases, to improve capacity in SOEs.

12. Sequencing with other tools
AA-ROSC assessments of practices are conducted in partner countries, either as part of a WB-IMF Financial Sector Assessment Program (FSAP) mission, in combination with other WB Advisory Service and Analytics (ASA) projects, or as standalone exercise. FSAP overviews all issues in the financial sector. One component of the assessment is completely related to ROSC. The tool that is working with the program jointly conducts the assessments (PEAF and AA-ROSC) to avoid duplication of efforts.

13. PFM capacity building
Capacity building is provided in the country's request. In most past cases, after a country action plan is developed based on the recommendations, the teams supports the development of professional accounting organizations through technical assistance programs. Other areas of support included capacity building programs in financial reporting and strengthening the role of regulatory bodies.

14. Tracking of changes and frequency of assessments
The option for tracking changes is available. Usually, previous reports are studied before or during the new assessment and an update is taken on the status of the recommendations from the previous report. A special annex in the AA-ROSC report highlights the recommendations and the improvements made when compared to previous reports. If the recommendations are linked to some development projects, then the reports for those projects are consulted to track changes.

15. Resource requirements
The cost of the assessment depends on the project where it is performed. Standard costs range from US$100,000 to US$150,000. The assessment includes staff time, internal travel time, travel and publications among others. The average time taken for an assessment is about 10 to 12 months. Sometimes it takes longer than two years to complete the assessment cycle beginning with the decision to conduct ROSC to the final publication.

16. Access to methodology
Detailed instructions about the toolkit are not available. An overview of the methodology is below.

17. Access to assessment results
More than 155 reports have been published and can be accessed by searching the World Bank’s data base.