

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 comparability of national accounting and auditing standards with international standards (International Financial Reporting Standards [IFRS] and International Standards on Auditing [ISA]), determine the degree with 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, to strengthen the country's corporate financial reporting regime.

2. Institutional coverage

National corporate sector, including state-owned enterprises.

3. Technical coverage

The Accounting and Auditing (A&A) modules cover the two globally accepted standards - the IFRS and the ISA. AA-ROSC has three modules:

- Module A: Accounting and Auditing Standards covers financial reporting standards analysis and auditing standards analysis. It is designed to help compare (1) national financial reporting standards with IFRS, and (2) national auditing standards with ISA.
- Module B: Institutional Framework for Corporate Financial Reporting primarily caters to institutions such as commercial enterprises (including SMEs), listed companies, banks, insurance, audit regulation institutions, quality assurance and public oversight, and accounting and auditing standard-setting institutions.
- Module C: Observed Reporting Practices and Perceptions aims to corroborate the findings from the assessments of A&A standards (Module A), and the institutional framework for corporate financial reporting (Module B) regarding the financial statements issued and reports from the regulators in their jurisdiction; and (2) gather perceptions on the demand for and quality of financial information from users of financial statements (e.g., credit risk analysts within financial institutions, investment managers, and financial analysts).

4. Application method

Custodian.

Methodology



5. Methodology

The approach for each module of AA-ROSC is as follows:

- Module A consists of 118 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 (or national GAAP [Generally Accepted Accounting Principles]) and IFRS, and national auditing standards and ISA, respectively. Decision 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 nine questionnaires which aim 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 exercises: financial statements review, review of regulatory findings, and perceptions survey.

Seven performance indicators of ROSC focus on the aspects of accounting and auditing system 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 justification of 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 2019 revision of the tool, indicators with a scoring system were introduced. The indicators follow a "progression matrix" approach, outlining milestones toward international good practice using the following rating scales:

- Rating scale based on hard requirements are applied for financial reporting standards analysis and auditing standards analysis on a scale of 1 to 4, where 4 indicates substantial alignment to the standards and no limitations for monitoring and enforcement procedures.
- Principles-based rating criteria assess the strength of institutional framework for corporate financial reporting on a scale of 1 to 4, where 4 indicates monitoring and enforcement procedures and processes are fully adequate.
- Quantitative rating criteria to assess financial reporting and auditing standards on a scale of 1 to 4, where 4 indicates adoption and alignment with IFRS, ISA, and ISQC.

7. Linkage to PEFA framework

Some indicators of PEFA that deal with fiscal risk and SOEs are referenced. AA-ROSC is related to PEFA performance indicators in terms of monitoring of public corporations (PI-10.1) and financial asset monitoring (PI-12.1).

8. Complementarity with 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 WB and IMF. A number of amendments and updates of the tool have been made. The first detailed revision was published in 2017 and subsequent revision in 2019, 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 measuring progress over time.

The PEFA framework was consulted at the time of development of the AA-ROSC indicators in 2019 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 standard setters and professional accountancy firms are the key counterparts consulted during the assessment, to see their perspective and use their documents. Many audit firms conduct a comparison of national accounting standards where the reports are referred to. The firms are consulted to discuss the results of the ROSC.

10. Assessment management

The three stages involved in conducting an AA-ROSC are as follows:

1. 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 context of AA-ROSC, objectives and scope of AA-ROSC, and work plan for conducting the assessment.
2. Implementation stage: Data is collected through the questionnaires. The questionnaire under Module A is filled in by the task team. The questionnaire under Module B is filled in 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 financial 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 A&A team prepares the draft report, presents findings, and makes policy recommendations to help the country enhance its A&A standards and practices. Draft AA-ROSC reports undergo a peer review process and follow the WB's standard procedures for analytical and advisory work.
3. Completion stage: A dissemination workshop is held to present the findings and recommendations to a wide range of stakeholders and generate momentum for implementing report recommendations. If reliable information or analysis of differences between national GAAP and IFRS is available from the national standard-setter or professional accountancy organizations, the ROSC A&A team may decide not to perform the analysis, on the grounds that it would represent a duplicative effort, and instead rely on the existing analysis.

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 to inspect their commitment 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 capacities 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 exercises. FSAP oversees all issues in the financial sector. One component of the assessment is completely related to ROSC. The team that is working with the program jointly conducts the assessments (FSAP and AA ROSC) to avoid duplication of efforts.

13. PFM capacity building

Capacity building is provided at the country's request. In most past cases, after a country action plan is developed based on the recommendations, the team 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.

There is no standard frequency of AA-ROSC. Performance can be reassessed every five years.

15. Resource requirements

The cost of the assessment depends on the country where it is performed. Standard costs range from US\$100,000 to US\$150,000. The assessment includes staff time, external consultant 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.

Transparency



16. Access to methodology

Detailed instructions about the toolkit are not available. An overview of the methodology is [available](#).

17. Access to assessment results

More than 155 reports have been published and can be accessed by searching the World Bank's [website](#).