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MAKING REGULATION WORK

Principles and Models for the Accountancy Profession

PAO Capacity Building Series

IFAC serves the public interest and strengthens the accountancy profession by:

- Supporting the development of high-quality international standards;
- Promoting the adoption and implementation of these standards;
- Building the capacity of professional accountancy organizations; and
- Speaking out on public interest issues.

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Introduction

This guide has been prepared as a point of reference for professional accountancy organizations (PAOs) in jurisdictions that are developing or reforming their regulatory arrangements.

The regulatory environment for the accountancy profession has changed tremendously in recent years as professional accountants, their clients, PAOs and governments seek to ensure that the profession continues to deliver high-quality services and contributes to economic growth and development.

Debate continues about whether there is an "optimal" model for the regulation of the profession, and the approach taken can differ dramatically from one jurisdiction to the next. Models are influenced by a wide variety of national legislative contexts, the number and nature of organizations responsible for implementing oversight, and external factors, such as requirements at regional or international levels.

IFAC's Policy Position Paper (PPP) 1 *Regulation of the Accountancy Profession* outlines the need for, and benefits of, effective regulation in addition to outlining the principles behind a shared approach to regulating the accountancy profession. When implementing such an approach, there is a clear role not only for governments and regulatory bodies—which may be independent of the profession—but also for PAOs.

This guide highlights and elaborates on the core messages delivered by PPP1, responds to frequently asked questions, and provides examples of regulatory models in a number of jurisdictions around the world.

Why Is There Regulation of the Accountancy Profession?

Every profession is defined by the knowledge, skills, attitude, and ethics of those practicing it. Regulating a profession is a specific response to the need for having its members meet certain standards. The need for, and nature of, such regulation depends on the specific profession, the market conditions in which it operates, and the type of services it provides. Where a profession, such as the accounting profession, provides an important public service, it is imperative that it serves and acts in the public interest.

The International Accounting Education Standards Board (IAESB) defines a professional accountant as an individual who achieves, demonstrates, and further develops professional competence to perform a role in the accountancy profession and who is required to comply with a code of ethics as directed by a professional accountancy organization or a licensing authority.

Like other professions, the sustainability of the accountancy profession depends on the quality of the services its members provide and on the profession's capacity to respond effectively and efficiently to the demands of a jurisdiction's economy and society. Regulation seeks to ensure high quality and, where appropriate, consistency in the quality of accountancy services.

There are a number of reasons why regulation might be necessary to ensure high-quality accountancy services. These include ensuring compliance with ethical, professional, and technical standards; addressing knowledge imbalances between the providers and procurers of services; and considering non-contracting users of accounting services, such as investors and creditors.

The Scope of Accountancy Profession Regulation

Regulation of the accountancy profession usually covers education, ethics, service quality, and enforcement. It involves a variety of practices, including service reviews, compliance monitoring, investigation, discipline, and public oversight.

Education: International Education Standards, as detailed in the *Handbook of International Education Pronouncements of the International Accounting Education Standards Board*, establish requirements for (i) entry to professional accounting educational programs, (ii) initial professional development (IPD) of aspiring professional accountants, and (iii) continuing professional development (CPD) of professional accountants.

Ethics: A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest. In acting in the public interest, a professional accountant observes and complies with a code of ethics. The International Ethics Standards Board for Accountants (IESBA) sets robust, internationally appropriate ethics standards, including auditor independence requirements, for professional accountants worldwide—namely the *Code of Ethics for Professional Accountants*.

Investigation and Discipline: A just and effective investigation and discipline (I&D) system is necessary for all professional accountants. Misconduct investigation and discipline, including breaches of professional standards by professional accountants and firms, should be included in the rules and regulations of those bodies responsible for I&D systems. Whether I&D is carried out by the PAO or another body, IFAC Statements of Membership Obligations (SMO) 6, *Investigation and Discipline*, represents best practice requirements for an I&D system for professional accountants.

Quality Assurance: Quality assurance (QA) review systems are needed to monitor the performance of professional accountants who, at a minimum, perform audit, review, other assurance, and related services engagements. Adoption of quality control standards, such as the International Standard on Auditing (ISA) 220, *Quality Control for an Audit of Financial Statements*, and International Standard on Quality Control 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, is essential to the development of a QA system. Whether the QA is conducted by the PAO or another body, SMO 1, *Quality Assurance*, represents best practice requirements in establishing a QA system. A QA system should be linked to CPD requirements, as well as a robust I&D system.

Effective Regulation

Regulation of individual professional accountants primarily takes place at the national level, with PAOs playing an important role in working with governments to ensure that regulation is effective, efficient, and in the public interest. Ongoing dialogue and cooperation is essential to ensure that regulation is suitably rigorous, proportionate, and properly informed. There must also be an appropriate balance between self-regulation by the profession, self-regulation with public oversight and accountability, and external regulation—a balance that will differ by jurisdiction. Shared regulation should be dynamic, allowing for ongoing dialogue and alignment of actions between PAOs and governments.

The IFAC report *From Crisis to Confidence: A Call for Consistent, High-Quality Global Regulation* identifies ten key principles for consistent, high-quality, global regulation derived from a round table held in Hong Kong in December 2015. The round table brought together 30 key senior executives and experts from regulatory agencies, financial markets, government, academia, listed companies, investment funds, and the accountancy profession.

1	**Clear Objectives in the Public Interest**	The responsibilities of regulators, and objectives of regulations, should be clearly articulated and serve the public interest.
2	**Proportionate and Balanced Approach**	Regulation should be fit for purpose and appropriate to the size and composition of the profession within the jurisdiction, as well as to the individual entities impacted.
3	**Evidence-Based Assessments**	The benefits of new regulation to the economy and society should outweigh its costs, with a clear basis in evidence and research.
4	**Appropriate Resourcing**	Regulators need to have an appropriate source of funding and possess the capacity to adequately carry out their duties and fulfil their mandate.
5	**Collaborative Action**	Regulation should enable cooperation and collaboration with national, regional, and international stakeholders and counterparts.
6	**Consistent and Coherent**	Regulators should strive for consistency in the execution of their duties and, to the extent possible, there should be regulatory coherence through coordination with government locally and internationally.
7	**Transparent and Open Consultation**	Since regulation involves multiple actors, broad consultation is needed during the development process, and subsequent ongoing transparency enables the public to know and understand how the profession is being regulated and what the regulator is doing.

8	**Active Oversight**	Regulatory bodies should have robust governance arrangements and publicly disclose details of their activities.
9	**Systematic Review**	A regular review process should be in place to ensure that regulation continues to be fit for purpose and achieve its objectives.
10	**Deliberate Enforcement**	Fair and visible enforcement is a crucial factor in ensuring confidence in, and credibility of, the profession and thereby financial information.

The Current Regulatory Environment

The accountancy profession's global regulatory convergence, including the adoption and implementation of high-quality ethical, professional, and technical standards, enhances the ability of capital markets to work globally, reduces the risks and uncertainties in those capital markets, and allows investments to move more efficiently across borders. It assists in achieving the stated goal of the Group of Twenty (G-20) to strengthen transparency and accountability in the context of financial and capital markets, and creates a level playing field in the interpretation and exchange of financial information.

There have been efforts to enhance audit regulation in recent years through shared knowledge and experience, as well as greater cooperation between regulatory bodies, primarily via international organizations established by, and representative of, national regulators. However, a number of jurisdictions have established divergent rules for some aspects of audit regulation, including terms for mandatory firm rotation and prohibitions of non-audit services.

Developments in regulation continue to highlight the importance of ongoing dialogue between the accountancy profession in various jurisdictions—typically represented by a PAO—and government regulators, as the appropriate balance is struck between self-regulation and government regulation. These developments include:

- **Global adoption and implementation of high-quality international ethical, professional, and technical standards**. Successful adoption and implementation of standards across jurisdictions assumes that the standards are adopted to ensure consistent, universal application. Also, it assumes that governments ensure that: (i) rigorous processes are developed so that standards are translated in a consistent manner across languages; and (ii) support is provided to appropriate organizations to develop and deliver high-quality implementation guidance as well as high-quality education to those responsible for applying and monitoring the standards.
- **External regulation of the market for audits of public interest entities (PIEs)** is often carried out consistently with the principles outlined in the *Core Principles for Independent Audit Regulators*, issued by the International Forum of Independent Audit Regulators (IFIAR).
- **The IFAC SMOs**, which provide clear benchmarks to PAOs to help them ensure high-quality performance by professional accountants. As part of IFAC's Member Compliance Program, member organizations are required to perform ongoing self-assessments of their compliance with each SMO. The seven SMOs cover areas such as quality assurance, investigation and discipline arrangements, and adoption and implementation of standards issued by the international standard-setting boards.

Models of Regulation

The combination of self-regulation, shared regulation, and external regulation will vary by jurisdiction and will depend on a number of factors, including:

- the historical experience in the jurisdiction, for example, financial reporting failures have often led to more external regulation;
- the self-regulatory performance of the PAO;
- the regulatory performance of government;
- membership in international bodies and the use of standards and practices developed and endorsed by these bodies;
- the general political orientation to regulation as an instrument of economic management;
- the development path of the economy; and
- the nature and characteristics of market failures to be addressed by regulation.

Trends in the balance between self-regulation and external regulation may also differ. Over the years, many countries have seen an increased role for external regulation, while in other countries, especially those in transition, the trend has been to strengthen the self-regulatory role of the profession.

IFAC recognizes the important role that PAOs play in working with governments to ensure that regulation is effective, efficient, and in the public interest. Ongoing dialogue and cooperation is essential to ensure an appropriate balance between self-regulation by the profession, self-regulation with public oversight and accountability, and external regulation.

Typically, shared regulation of auditing at the national level includes:

- PAOs regulating audits for non-PIEs and for PIEs where there is no independent audit regulator. SMO 1, Quality Assurance, provides guidance to PAOs in this area.
- PAOs regulating audits for some PIEs (typically smaller PIEs) with oversight from an independent audit regulator.

There are a number of ways that self-regulation and external regulation may be combined to create an effective and efficient regulatory mix. In striking a balance between the various methods of regulation, it is possible that a PAO will have responsibility for some aspects of regulation and a government or independent agency for other aspects. For example, a PAO may have responsibility for aspects of regulation where it has significant expertise, such as setting education requirements for professional accountants.

Self-regulation

Self-regulation capitalizes on strengths PAOs acquire by being close to the markets in which their members operate and, as a result, having a firm understanding of how regulations might affect member behavior. It also offers PAOs easier access to information and the skills and experience necessary to regulate the profession. In particular, PAOs have the ability to respond quickly in light of changing circumstances. PAOs also play an important role in ensuring the quality of the services their members provide and, as a result, in the regulation of the profession.

Almost all jurisdictions impose some obligation on the PAO to implement certain elements of self-regulation. For example, PAOs monitor and enforce the quality of professional accountancy services offered by their members in a manner consistent with the IFAC SMOs. PAOs regulate their members—those in business as well as preparers and auditors of public sector entity financial statements—through the enforcement of professional standards, CPD, and ethical requirements.

Self-regulation with public oversight and accountability

Self-regulation with public oversight and accountability typically involves an independent agency exercising some form of oversight. Having PAOs report to an independent agency as it discharges its accountability and oversight activities complements and adds strength to self-regulation.

PAOs can perform regulatory responsibilities in a way that increases the overall effectiveness of the regulatory system. They aim to ensure the quality of services provided by their members through their dedication to upholding and promoting high-quality professional practices. They also play a role in the development of regulation affecting the profession, including a responsibility to communicate and work with governments in the public interest. To achieve this, PAOs must use their knowledge of the profession and the local markets to assist government and external regulatory agencies to design and implement high-quality professional regulation.

External regulation

External regulation is when the regulator independent of the profession and audits for PIEs are regulated by independent external audit regulators. Therefore, either the profession has no involvement in any regulatory system, process, or institution, or it has specific involvement with appropriate safeguards in place to ensure that it cannot unduly influence the arrangements.

Because the profession offers a range of services, it is possible that there may be different regulatory arrangements for different types of services and, therefore, different external or oversight arrangements may be employed.

External regulatory oversight is probably most advanced for the provision of auditing services. The overarching international regulatory organization, IFIAR, has developed a set of core principles for auditor oversight. While these are specific to auditing, depending on jurisdictional circumstances, the key characteristics embodied in IFAR's principles might also be relevant when considering external regulation of other services offered by the profession.

The main characteristics include:

- oversight conducted in the public interest: an oversight body acts free from undue influence from any one group, while taking into consideration the views and perspectives of a broad group of stakeholders;
- acknowledgement of the unique characteristics of a country's legal and regulatory framework and capital market in determining what form an oversight body should take;
- regulators with the necessary expertise and skills to undertake the task;
- transparency and accountability with respect to the structure, policies, governance, and operations of the regulator, and regular and timely publication of the work it has performed;
- the need for independent or unconditional funding, or funding that is protected from undue influence by appropriate safeguards, that is also a stable and secure source of funding; and
- international cooperation whereby, ultimately, regulators operate at the level of competence and expertise that allows them to cooperate with other regulators in other jurisdictions.

Shared regulation

Shared regulation is when PAOs and government regulators share a commonality of interests and objectives when it comes to their concerns for the quality, behavior, and standards of professional accountants, as well as the awareness of the public interest imperative for the profession.

Many PAOs act under a mandate from their respective governments, where the government gives them legal recognition and assigns them a set of roles and responsibilities with some form of reporting accountability requirement. These responsibilities can include:

- setting admission criteria;
- setting education requirements, including continuing education requirements;
- establishing disciplinary procedures; and
- adopting and implementing ethical, professional, and technical standards.

The role of government in the regulation of the profession is to ensure that the regulation is achieving effectively and efficiently the public interest objective of quality, and consistency of quality, in the supply of accountancy services. To do this, governments need to:

- understand the nature and characteristics of the issues that regulation is seeking to address;
- have a system for monitoring the performance of the body, or bodies, charged with regulating the profession;
- focus on outcomes, in this case the overall quality of accountancy services; and
- be able to amend legislation and regulation quickly where circumstances require.

Reporting requirements vary. Where government has the primary overarching oversight responsibility, PAOs may submit annual reports to that government. PAO reporting on its activities assists in fulfilling its public interest and public accountability responsibilities.

Whatever model of regulatory responsibilities/approach is employed, there needs to be periodic evaluation to assess its effectiveness.

If regulation is to be effective across the globe, regulatory consistency is essential. At a national level, ongoing dialogue and an alignment of actions between governments, PAOs, and independent regulatory bodies is needed. This dialogue should address developments in the profession, the economy, and society that may affect the profession and how it performs its role. Dialogue is essential if regulation and regulatory systems are to remain current, efficient, and effective. Whatever the regulatory balance in a particular jurisdiction, an effective outcome is more likely where there is a collaborative and mutually respectful relationship between the various parties involved.

APPENDIX: Examples of Regulation in Context

The following examples are from jurisdictional profiles on the IFAC website, prepared as part of the IFAC Member Compliance Program, and are correct at the time of publication. For up-to-date information relating to the accountancy profession within a specific country, see the IFAC website.

COSTA RICA

Law No. 1038 of 1947 (on the Establishment of an Institute of Public Accountants) and Law No. 1269 of 1951 set the qualification requirements for the accountancy profession in Costa Rica. There are two different segments of the accountancy profession—authorized public accountants and private accountants.

The Colegio de Contadores Públicos de Costa Rica (CCPA) regulates practitioners in the public accounting and auditing profession, referred to as authorized public accountants. Authorized public accountants must be CCPA members and have the exclusive legal responsibility to deliver statutory audit services. Law No. 1038 of 1947 empowers the CCPA to maintain registries of authorized public accountants and set investigation and discipline procedures for its members.

The Colegio de Contadores Privados de Costa Rica (CCPR) regulates accountants and accounting technicians, commonly called private accountants, who work in private sector entities. Members of the CCPR have responsibility under the law for the preparation of accounting records and financial statements.

CCPA members must hold a university degree in accounting and are required to have two years of professional experience. CCPR members are not required to have a university degree or a minimum level of experience. According to a Costa Rican legal ruling, continuing professional development is not a mandatory requirement for professional accountants.

Auditors providing services to regulated entities must be registered with the Superintendence of Banks, which manages the registry on behalf of the other regulators. Auditors must be members of the CCPA to be included in the registry.

Although no independent audit oversight arrangement exists in Costa Rica, in accordance with Law No. 1038 of 1947, the CCPR is responsible for oversight and monitoring authorized public accountants' professional practice, which have the exclusive legal responsibility to deliver statutory audit services.

IRELAND

The Companies Acts and SI No. 220 2010 prescribe the key professional and ethical requirements for members of the profession in Ireland, and also establish and outline the roles and responsibilities of various bodies involved in regulating the profession.

The Irish Auditing and Accounting Supervisory Authority (IAASA) was established under the provisions of Part 2 of the Companies (Auditing and Accounting) Act 2003 to examine and enforce financial reporting by certain listed entities, and to supervise the regulatory functions of Prescribed Accountancy Bodies (PABs) in Ireland. A PAB is any accountancy body offering audit qualifications that comes within the supervisory remit of the IAASA.

The main duties of IAASA are to supervise how the PABs regulate and monitor their members; promote adherence to high professional standards in the auditing and accountancy profession; and monitor whether the financial statements of certain classes of companies comply with the Companies Acts and relevant accounting requirements. Through its Regulatory Supervision and Monitoring Unit, the IAASA oversees the quality assurance (QA) systems operated by Recognized Accountancy Bodies (RABs), which are PABs that have authority to authorize individuals and firms to conduct audits. In accordance with SI No. 220 2010, the IAASA also supervises RABs' approval and registration of audit firms, adoption of standards on professional ethics, internal quality control of audit firms and auditing, continuing education, and the investigative and disciplinary (I&D) system.

There are six RABs in Ireland: Association of Chartered Certified Accountants (ACCA); Institute of Chartered Accountants in England & Wales (ICAEW); Institute of Chartered Accountants in Ireland (Chartered Accountants Ireland); Institute of Chartered Accountants of Scotland (ICAS); Institute of Certified Public Accountants in Ireland (CPA Ireland); and Institute of Incorporated Public Accountants (IIPA).

The nine PABs are: ACCA; Association of International Accountants; Chartered Accountants Ireland; Chartered Institute of Management Accountants (CIMA); Chartered Institute of Public Finance and Accountancy (CIPFA); ICAEW; ICAS; CPA Ireland; and IIPA.

Professional Accountants in Business (PAIBs)—which include technicians, management accountants, and public sector accountants—are not regulated by law or regulation. PAIBs that voluntarily become members of the Accounting Technicians Ireland, CIMA, or CIPFA are subject to the educational and ethical requirements of these PAOs, as well as their I&D systems.

JORDAN

Accountancy Law 2003 empowers the Higher Committee of the Accountancy Profession (HCAP) and the Jordanian Association of Certified Public Accountants (JACPA) to regulate the accountancy profession in Jordan. The HCAP recognizes professional accountancy organizations in the country and approves the granting or revocation of Certified Public Accountant (CPA) licenses. It is also responsible for adopting the auditing and ethical standards that the JACPA recommends. Accountancy Law 2003 defines the requirements for initial professional development (IPD) and continuing professional development (CPD) requirements, while the country's universities and the Ministry of Higher Education and Scientific Research share responsibility for developing the university accounting or business degree curriculum.

The JACPA is tasked with oversight of the IPD requirements stipulated in Accountancy Law 2003, including administration of the professional certification examinations and the verification of practical experience requirements. Candidates fulfilling all legal conditions are awarded the CPA designation, subject to HCAP approval and being a JACPA member. In addition, the JACPA, which has the authority to create its own bylaws, has instituted CPD requirements for its members. The JACPA also plays a standard-setting role as Accountancy Law 2003 requires it to recommend auditing and ethical standards to the HCAP. The association is tasked with the establishment of an investigative and disciplinary system and has the power to sanction members for non-compliance with its bylaws.

Although it does not have the authority to establish and operate a quality assurance review system, under Accountancy Law 2003, it can inspect its member's working papers.

The International Arab Society of Certified Accountants determines certification and CPD requirements for the two voluntary designations that it offers: International Arab Certified Public Accountant and International Arab Certified Management Accountant.

MALAYSIA

Under the Accountants Act (1967), the Malaysian Institute of Accountants (MIA) is responsible for the regulation and development of the accountancy profession in Malaysia. The Accountants Act (1967), which is administered by MIA, stipulates that no person can practice or declare themselves as a chartered accountant, auditor, tax consultant, licensed accountant, or associate member unless registered with MIA. The Minister of Finance, through the Audit and Liquidator License Committee, is responsible for licensing statutory auditors.

MIA's mandate includes ensuring quality assurance of the accountancy profession, developing an assessment framework for admitting members, adopting an educational and professional development framework for continuing professional development, adopting professional standards based on internationally accepted guidelines, developing bylaws for members, and adopting a disciplinary system for those who fail to comply with the standards and bylaws. MIA membership is mandatory for everyone practicing as an accountant in Malaysia.

The Audit Oversight Board (AOB) is responsible for the independent oversight of auditors of public interest entities (PIEs). Section 31U of the Securities Commission Act (1993) gives legislative authority to the AOB for ensuring and enforcing compliance with auditing and ethical standards by PIE auditors as well as for registering auditors of PIEs.

Auditors providing services to banks, insurance companies, financial institutions, and listed companies are also subject to the regulation by their respective regulators. The Central Bank works with audit committees of the institutions it supervises and ensures that audit quality, independence, and scope issues are addressed prior to appointing an external auditor.

The Companies Commission of Malaysia (Suruhanjaya Syarikat Malaysia, SSM), which was formed as a regulatory body in 2002, enforces the Companies Act (1965), the Registration of Business Act (1956), and the Trust Companies Act (1949). It carries out monitoring and enforcement activities—comprising compliance, investigations, and legal services—pertaining to all companies incorporated under the Companies Act 1965. The SSM's Corporate Accounts Monitoring Section is responsible for the registration of audit firms, monitoring changes in audit firms and auditors, and monitoring the resignation and removal of auditors. The SSM Enforcement Office has divisions that carry out the monitoring and enforcement activities such as compliance, investigations, and legal services. The SSM imposes sanctions on companies, their directors, and their auditors for misconduct or breaches of the laws and regulations.

ZIMBABWE

Under the Public Accountants and Auditors Act (Chapter 27:12), which became effective in 1996, the accountancy profession in Zimbabwe is regulated by the Public Accountants and Auditors Board (PAAB). The Act, as amended, provides for the registration of public accountants and public auditors and establishes the PAAB as the registering, regulatory, and standard-setting body for public accountants and auditors and their representative bodies. Its functions, under Section 5 of the Act, include: (i) setting auditing and accounting standards; (ii) considering and determining applications for registration of individuals as public accountants or auditors; (iii) maintaining the Register of Public Accountants and Auditors; (iv) defining and enforcing ethical practice and discipline among registered persons; (v) evaluating and monitoring the standards of qualifying examinations, courses, and training set or offered by the constituent bodies; (vi) evaluating and monitoring training courses of foreign institutions with a view to making recommendations to its constituent bodies; and (vii) promoting the standardization of qualifying examinations on common subjects.

Entry to the accountancy profession requires an undergraduate degree, completing the Zimbabwe Certificate in the Theory of Accounting, a minimum of three years of work experience, and passing final qualifying examinations. To use the designation Chartered Accountant, individuals must register as members of the Institute of Chartered Accountants of Zimbabwe (ICAZ) as stipulated in Section 8 of the Chartered Accountants Act, and receive a practicing certificate from the institute and the PAAB. ICAZ's education program (the ZCTA program) is fully aligned with that of the South African Institute of Chartered Accountants (SAICA). Qualifying examinations are fully outsourced from SAICA and are the same as SAICA's qualifying examinations except for the modification of certain tax and law aspects to suit the local environment.

ICAZ, established by the Chartered Accountants Act (Chapter 27:02), and the Institute of Chartered Secretaries and Administrators in Zimbabwe (ICSAZ), established by the Chartered Secretaries (Private) Act (Chapter 27:03), are authorized by the above-mentioned acts to regulate their members. The Acts and related by-laws give ICAZ and ICSAZ the authority to administer examinations, register members and firms, administer continuing professional development, enforce compliance with the code of professional conduct, conduct investigations of members, and take appropriate disciplinary actions as required.

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