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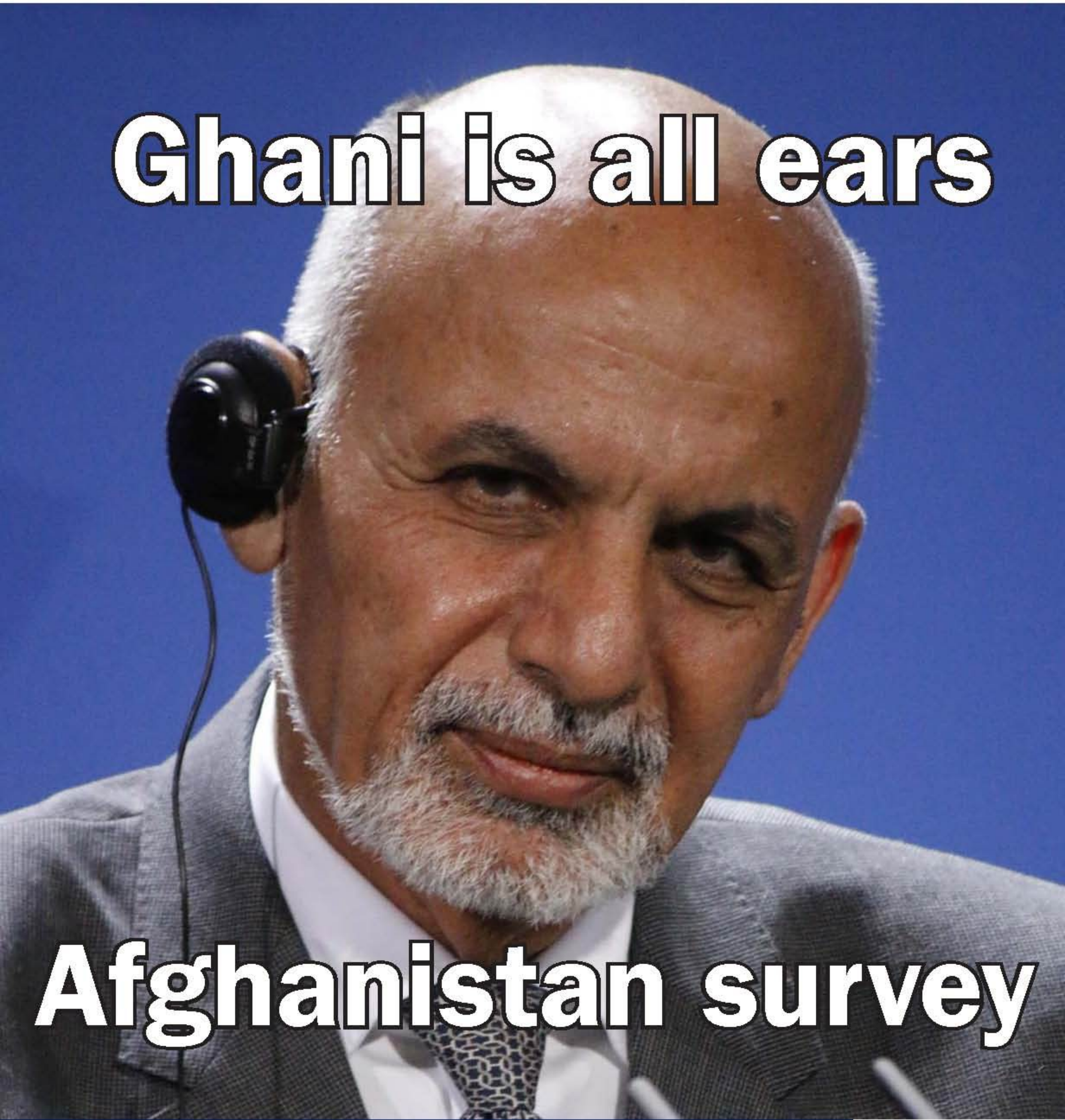

Ghani is all ears

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IASB asked to prove its independence

The European internal market commissioner Charles McCreevy has pledged to examine the funding structure of the International Accounting Standards Board (IASB) to ensure transparency.

Speaking on best practice and accountability in financial services to the economic and monetary affairs committee of the European Parliament, McCreevy said: "[T]he standard-setters are currently sponsored by voluntary contributions which range from central banks to listed companies, which raises potential issues of conflicts of interest.

"The governance of international standard-setters is high on our agenda and will remain there in the coming months. I intend to talk to Paul Volcker, the chairman of the board of the IASB Trustees, to see how we can best do this." McCreevy suggested that reforms are necessary to "improve the credibility of these organisations and the standards they elaborate."

The body which oversees the governance of the IASB is the International Accounting Standards Committee (IASC) Foundation [*see page 14*]. Its director of operations, Tom Seidenstein, told *TA* that he believes "the structure of the organisation has largely served it well." Every five years the constitution and by-laws of the standard-setter are evaluated by the trustees after feedback from various parties.

"We are in the midst of a review process right now which, incidentally, we've had three rounds of public consultation on, including public hearings in Europe, North America, Asia and Latin America," he said. The recommendations will be reviewed by the trustees next month.

Seidenstein explained that funding for the global standard-setter comes from over 150 organisations. Private companies, which contribute 75 percent of donations, are each limited to a maximum contribution of $200,000 a year. Each of the Big Four firms provides $1 million a year, amounting to 25 percent of the IASB's budget.

The structure of the IASB, Seidenstein maintained, helps to guard against conflicts of interest arising. He said: "The trustees are responsible for the funding. The board has no relation to the funding and they are insulated to the pressures of funding... Two potential concerns have been raised: one is that the perception that companies

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Authority of PCAOB must be reined in

The structure of the US Public Company Accounting Board (PCAOB) is fundamentally flawed and may need to be subsumed into the US Securities and Exchange Commission (SEC) within the next five years, claims Peter Wallison, a former general counsel to the US Treasury Department.

As many countries in Europe follow the lead of the US in setting up oversight boards, there are still observers within the US itself who question the usefulness and even the legitimacy of such a model. In a paper for the American Enterprise Institute, Wallison took aim at the PCAOB's very existence, arguing there was never any need for the board in the first place.

He maintained that accounting scholars and commentators have noted for the past 20 years that financial statements based on US Generally Accepted Accounting Principles (GAAP) are becoming less and less useful as a means of financial disclosure due to the rise in importance of intangible assets in relation to revenue generation. "In establishing an agency specifically for the purpose of the auditing of GAAP financial statements, Congress was fighting the last war. The problems associated with GAAP are not – as Congress seemed to think – problems of accuracy; they are problems of adequacy," he wrote.

Wallison identified the main source of the problem in the highly strained environment of the US capital markets in which the regulator was established. He gives the example of no more than two of the five full-time PCAOB members being allowed to be accountants, as this removes the overwhelming majority of candidates – and arguably those best qualified to monitor the industry – from consideration for the positions. He said: "This apparent bias against the accounting profession – so that accountants were not even permitted to control their own so-called self-regulatory organisation – is a direct result of the overheated atmosphere in which the Sarbanes-Oxley Act was legislated."

He went on to suggest that the nature of the PCAOB's organisation has created a sense of adversity between accountants and their regulator. "Important rules and standards, which will profoundly affect the cost of audits and how auditors deal

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Carlos Martin Tornero, The Accountant Editor
Journalist of the Year for Regulatory Issues
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Portrait of an Afghan woman

The birthplace of the nascent Afghan accountancy industry is not Kabul, but Peshawar in Pakistan.

The NGOs and international donors' agencies operating around the neighbouring area, where refugee camps for Afghans were settled, started to ask for the services of accountancy firms in post-Taliban Afghanistan.

But for a country whose most basic infrastructure was hit by interminable wars, having qualified accountants seemed to be an unaffordable luxury.

The Pakistani profession, instead, provided the services required by the development sector in order to deal more effectively with the international financial aid aimed at reconstructing Afghanistan.

In one of those refugee camps near Peshawar, photographer Steve McCurry took the picture of a twelve-year-old Afghan girl, whose challenging gaze was immortalised on the cover of the *National Geographic* in June 1985.

The Afghan girl grew up ignoring she had turned into a symbol of her country's tragic destiny as Afghanistan had yet more turmoil to suffer.

As the years passed, like many other refugees, she faded away. But in 2002 *National Geographic* rediscovered her as an adult by the name of Sharbat Gula. The photo taken that time showed a prematurely aging lady who, nonetheless, seemed to keep the same defiant gaze.

In February 2015, another portrait of Sharbat Gula made the headlines again. This time however, was the photo of her Pakistani national identity card – a document she has no right to obtain as an Afghan refugee.

As such the Pakistani government cancelled the fake ID cards of Gula and her children. The story reflects deeper social issues in Pakistan, which hosts about 2.5m Afghan refugees.

The situation is different for Pakistani partners who are leading accountancy firms in Afghanistan. Many of them spend half of the time in Kabul and the other half in Pakistan. The short distance and a different working week (from Saturday to Wednesday in Afghanistan) also help.

For example, EY's Muhammad Basheer Juma, Grant Thornton's Saqib Rehman Qureshi or HLB's Ijaz Akber among many others interviewed for our special survey on Afghanistan.

In the absence of any accountancy infrastructure, they are somehow paving the way for the nascent Afghan profession, which hopefully will help prevent corruption scandals such as that of the Kabul Bank.

But the main gap the country faces is education, not just in the accountancy sector. The London's Imperial War Museum is running an exhibition on Afghanistan.

A looped film, part of the installation, shows footage of Afghan cities. In the corner of a street in Kabul, a big banner advertises the prestigious Fulbright Program, the educational exchange scheme sponsored by the US government. "Applications are due April 12th, 2014," the banners read.

No doubt, among those who applied might be the future leaders of Afghanistan. In 1985 the incumbent president Ashraf Ghani was a Fulbrighter, as the alumna of the program are called.

But the other gap is gender equality. How long would it take until a woman is appointed partner of an Afghan accountancy firm?

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EU audit reform: Spanish government moves ahead

While the UK government and the UK accounting regulator carefully ponder before implementing the EU's audit reform through an ongoing consultation, the Spanish cabinet gave the green light to its own audit reform plans amid widespread concerns from the Spanish accountancy profession.

Earlier this month the Spanish cabinet approved a definitive draft of an audit law which implements the EU reform. The draft will be sent for discussion to the Congress of Deputies, Spain's lower chamber of parliament, which represents the last chance for introducing amendments to the text.

However Spain's ruling party, Partido Popular, has the majority of seats in the Congress of Deputies with 184 out of 350 Spanish MPs, and therefore the text is unlikely to be changed.

Spain's two professional accountancy bodies have expressed deep concerns over the way the Ministry of Finance rushed the EU audit reform and curtailed the participation of stakeholders to inform the debate from the early stages of the draft.

Both the Institute of Auditors (ICJCE) and the Corporation of Auditors of the Council General of Economists (REA+REGA) have made it clear they feel excluded from the whole process.

Recently REA+REGA president Carlos Puig de Travy said the last known version of the draft law requires key amendments to align the text to the EU market and to tackle a number of technical issues detected. Among those issues is the definition of public interest entity (PIE). According to REA+REGA the draft makes more than 6,000 companies fall into the PIE category, eleven times more than in Germany and four times more than in the UK.

According to the Federation of European Accountants, the EU audit reform, which comprises a directive and a regulation, left a wide range of options for member states to decide on: 51 and 32, respectively. The EU legislation pack was passed in June 2014 and comes into force in June 2016.

Carlos Martin Tornero ■

US Securities and Exchange Commission chair **Mary Jo White** and **EU Financial Services Commissioner Jonathan Hill** met earlier this month to discuss the importance of international cooperation in regulating global financial markets, as well as topics such as market structure, asset management, accounting standards and small business capital formation. They also discussed Commissioner Hill's proposal for an EU Capital Markets Union. Contacted by *The Accountant* both the US SEC and the EU Commission declined to comment on the outcome of this meeting.

One year after the introduction in the UK of the extended auditor's report a survey by the **UK Financial Reporting Council** (FRC) found that auditors not only met the new requirements but in many cases have gone further and reported more widely than required.

Commenting on the release of the FRC survey *Extended auditor's reports: a review of experience in the first year*, executive director of codes and standards Melanie McLaren said the response of auditors to changes designed to improve confidence has been most encouraging and that the diversity of approaches adopted by different audit firms is to be embraced.

The Ministry of Corporate Affairs ruled and published a road map for **adoption of the Indian Accounting Standards (Ind AS)**, which are largely convergent with IFRS. Ind AS will come into force on 1 April according to the ruling and companies with a net worth of INR5bn ($80.3m) or more will mandatorily have to follow Ind AS from 1 April 2016.

Corporates having a net worth of less than INR5bn but listed, or in the process of getting listed, and companies with a net worth of INR2.5bn or more will have to follow the new norms from 1 April 2017. However, the road map exempts banking, insurance and non-banking finance companies.

The **South African Institute of Professional Accountants** will be the first professional accountancy body to sign the Anti-Corruption Pledge of the Collaborative Stakeholder Movement (CSM). The CSM is a non-governmental organisation which promotes inclusive economic growth in South Africa and Africa.

Last November, CSM launched its anti-corruption pledge which exhorts signatories to "to engage, listen, collaborate, act and deliver with a view to curbing bribery, fraud and corruption in the South African economy". The pledge already has 20 signatories.

In a two-day meeting in Buenos Aires, Brazil's Federal Accounting Council president Jose Martonio Alves Coelho met his Argentinian counterpart and the **Group of Latin-American Accounting Standard Setters** (GLENIF) in an effort to enhance further the use of IFRS in Latin America and the participation of Latin American standards-setters in the decisions of the International Accounting Standards Board (IASB).

Coelho also met **Argentinian Federation of Professional Councils of Economic Sciences** president Ramón Nicastro and its vice-president Silvia Beatriz Lemos. Also present at the meeting was **Interamerican Accounting Association** (AIC) vice-president of professional development Edgardo Fernández. The three organisations discussed joint actions between Brazil and Argentina to develop the Latin American profession. They also agreed on the necessity of a greater integration of Latin American countries in order to strengthen the GLENIF and AIC.

The protagonists agreed to meet again in April in Brasilia with the Latin American board of the IASB and members of the **Brazilian Institute of Independent Auditors**. It was agreed that during that meeting the GLENIF will present a report of its activities.

The **Association of Chartered Certified Accountants** (ACCA) opened an office in Tanzania's capital Dar-es-Salaam. In a statement the global institute said it appreciated the sub-Saharan country has recently undergone significant political and economic reforms which have created a need for qualified accountants and finance leaders. ACCA had 243 members in Tanzania as of the end of January.

Nicholas Parker was elected vice-president of the **Institute of Chartered Accountants in England and Wales** (ICAEW) for the term 2015-2016, subject to the ICAEW's council vote in June. Parker's election means he will become ICAEW president in June 2017, after the tenure of Hilary Lindsay. Parker is a tax partner at **Baker Tilly** in the UK, a former member firm of Baker Tilly International, which joined RSM International. He's also the chairman of the ICAEW audit committee.

Eduardo Pocetti, president

The **Chartered Institute of Public Finance and Accountancy** (CIPFA) and the **Institute of Chartered Accountants of Sri Lanka** signed a Memorandum of Understanding (MoU). Aimed at improving public finance management in the country, the MoU charts a plan for ongoing collaboration between the two institutes.

CIPFA's Counter Fraud Centre and BAE Systems Applied Intelligence have partnered to develop counter fraud and cybersecurity services for the public sector. The partnership between the two organisations will focus on four main areas: risk management, fraud detection, cybersecurity and compliance and anti-money laundering.

Eduardo Pocetti, president of the **Brazilian Institute of Independent Auditors** (IBRACON), received the Presidente Annibal de Freitas medal, which recognises prominent personalities who provide outstanding services to accountancy and society. The medal is presented by the Union of Accounting, Auditing, Expertise, Information and Research firms in Sao Paulo and is seen as one of the most prestigious recognitions by the Brazilian profession.

Barnier's successor unlocks SME-friendly reform of EU capital markets

The opening of a European Commission consultation on the establishment of a unified capital market across the EU was almost universally welcomed, but is likely to ignite discussion around already controversial topics such as common reporting standards for SMEs and tax jurisdictional difference across member states.

In a green paper published in February, the Commission opened a three-month consultation period on the outline of a new capital markets union aimed at improving access to non-bank finance for small businesses across the EU's 28 member states.

Announcing the consultation, EU commissioner Jonathan Hill, in charge of financial stability, financial services and capital markets union, said: "We will identify barriers to growth and knock them down, one by one. A single market for capital will help money flow through the EU and put it to work in support of Europe's businesses, particularly its SMEs."

The initiative is the first structural effort under the Juncker administration's investment plan for Europe, announced in November and designed to boost jobs and growth in the EU.

Among the issues opened for consultation were financial reporting standards for SMEs and how to address the enduring jurisdictional differences in tax among EU members.

Among the concerns highlighted by the green paper are information problems faced by SMEs, such as a lack of feedback from lenders when their credit applications are declined and poor promotion of alternative financing opportunities by banks.

Similarly, while acknowledging the "key role" played by the IASB standards in simplifying large listed European companies' access to global capital markets, the Commission said it was against extending IFRS to smaller entities.

"Imposing full IFRS on smaller companies, in particular those wanting to access dedicated trading venues, would be a source of additional cost," it stated.

Instead, the Commission seemed to propose a new standard, equivalent to IFRS, for smaller enterprises conducting business in the EU.

"The development of a simplified, common and high-quality accounting standard tailored to the companies listed on certain trading venues could be a step forward in terms of transparency and comparability, and if applied proportionally, could help those companies seeking cross-border investors to be more attractive to them," it explained.

The green paper, extended for consultation, asked if there is value in developing a common EU level accounting standard for SMEs listed on multilateral trading facilities, and under which conditions.

So far, standard-setters have responded with caution, but as the consultation progresses it is likely to accelerate the debate on reporting for SMEs.

Tax jurisdiction

Another topic touched upon by the Commission's green paper and likely to result in protracted discussion is that of tax jurisdiction within the EU.

The green paper states: "Differences in tax regimes across member states can impede the development of a single market for capital", for example, by hindering cross-border investments "such as pensions and life insurance".

While shying away from directly promising changes to tax laws, the Commission stated:

"Many experts and market practitioners agree that the barriers to an integrated capital market include divergences in areas such as tax, company and insolvency laws across the EU."

On this issue, the Commission has asked participants to consider through the consultation what existing taxation barriers should be prioritised and how "to contribute to more integrated capital markets within the EU and a more robust funding structure at company level".

Isabella Grotto

Mazars honorary chairman appointed president of French standard-setter

An appointment has been made that might signal the beginning of a beautiful friendship between the IFRS Foundation and the French standard-setting body, following friction during the outspoken leadership of the late Jerome Haas, as **Vincent Huck** reports

Pending a final announcement by France's president, Mazars honorary chairman Patrick de Cambourg will be appointed president of the French standard-setting authority, Autorité des normes comptables (ANC).

In early February, De Cambourg was suggested by France President Francois Holland to take on the role and according to French law had to be interviewed by both chambers of the French parliament before being formally appointed. On the same day, De Cambourg presented himself before the commissions of finance of both the National Assembly and the Senate.

De Cambourg delivered the same presentation to both commissions saying that accountancy was too often considered as a technical activity.

"But accountancy is undoubtedly linked with politics and social issues," he said. "Beyond the standards there's an economic and social reality which touches women and men."

De Cambourg drew examples from his 40-year career at Mazars to explain his management style to both commissions. And while he said it was too early to outline a detailed strategy for the ANC, he identified three major issues on which the French standard-setter should focus.

"First, at European level it's necessary to succeed in reforming EFRAG [European Financial Reporting Advisory Group], and ensure the ANC is a key contributing force in this success," he said.

Secondly, he praised the contribution of the International Accounting Standards Board to the profession in the past few years and said the ANC through "bilateral dialogue or through the EU needs to establish a better dialogue with the IASB, one of respect and trust".

Finally, at national level De Cambourg said there was still a lot of work to do in terms of standard-setting and particularly in specific sectors of the economy such as insurance.

Following his presentations, députés and senators had the opportunity to question De Cambourg. Members of the French Assembly's commission of finance asked him how he intended to repositioned the ANC as a leading voice internationally, as it seems France and Europe had lost the battle of influence in standard-setting to the US.

De Cambourg said that while France might not have the power to impose its view internationally, it benefits from "a know-how" and "savoir-être" rooted in the Enlightenment era which gives her the charisma to be influential internationally; this should fructify".

The key for success, he continued, is the EU, where France needs to rise to the challenge of federalism and its resulting complexity by truly being a leading European voice. Senators asked De Cambourg about his views on having a private organisation, the ANC, issuing accounting standards. "Many countries including France are not very familiar with this model, which comes from the Anglo-Saxon world," he replied. "But this was a requirement from the EU when it adopted IFRS in 2002."

Senators also asked him if he believed accounting standards should be simplified to be understood better.

"Accounting can come across as a complex subject matter," he said. "But really what's complex is the financial transactions which accountancy describes. Therefore it is those transactions that have to be made easier to understand."

The counting of both commissions' votes was undertaken simultaneously and his appointment was approved with 12 votes in favour out of 13 at the French National Assembly's commission, and 24 votes in favour and one abstention at the Senate's commission.

Having been approved by the Parliament, De Cambourg's appointment needs to be formally announced by the president through the publication of a decree before it can be considered official. But this should be a formality given De Cambourg was President Hollande's choice in the first place.

Patrick de Cambourg in London at a rountable hosted by TA's sister publication *International Accounting Bulletin*

De Cambourg's appointment is expected to mark a clear change of tone at the head of the ANC, as he takes over from Jerome Haas who died of cancer last May.

Haas, a leading personality in French accountancy circles, was a leading voice against IFRS.

Talking to *The Accountant* last year for the France Survey, he said: "We need standards that don't exist, and we are given standards that we don't need."

"We want to create our own standards in France and Europe and we don't want to depend on international standards which lead to unreliable and foolish actions," he continued.

De Cambourg, however, having spent most of his career transforming Mazars from a French firm into an international network, is expected to show less resistance to the IFRS. ■

EU directive sparks power struggle

Are Bulgarian auditors trying to expand their power? **Isabella Grotto** reports

A proposal by one of Bulgaria's accountancy professional body to amend national accounting laws has been heavily criticised by different industry stakeholders.

Bulgaria's Institute of Certified Public Accountants (ICPA) is behind the legislative proposal delivered to the country's Ministry of Finance, provoking criticism by the Association of the Professional Accounting Companies (APAC).

While the Bulgarian government currently functions as the country's standard-setter, ICAP serves as its professional accountancy body and advises on the adoption and enforcement of accounting standards. The Bulgarian law, which aims at transposing the EU Accounting Directive, proposes the creation of a new, state-funded national accounting council under the guardianship of the ICPA.

As the 20 July 2015 deadline for the directive's transposition grows closer, critics have voiced concern that Bulgaria's Ministry of Finance will issue the draft bill at the last moment, denying the country's industry time to react. If passed, the law will come into effect from 1 January 2016.

APAC, which is part of a working group within the Ministry of Finance concerned with the transposition of the EU directive, published a response seen by *The Accountant* which heavily criticised the draft.

It described the bill as at odds with the planned promotion of small and medium-sized businesses, part of the Bulgarian government's 2014-2018 economic development plan.

APAC also condemned the bill, not only for failing to guarantee the transposition of the directive, but distorting its guiding principle of "think small first".

Speaking to *The Accountant*, Katya Krancheva, managing partner of national firm K&K Accounting highlights that SMEs are the engine of any EU economy. She emphasises that for the European Commission, reducing the bureaucratic burden and taking into account the needs of the small business are already top priorities.

"Their support is an important national policy for Bulgaria. That's why the implementation of the the directive has to guarantee that the basic principle 'think small first' is kept." She notes that micro-entities have limited resources with which to comply with demanding regulatory requirements.

"Those rules place on them administrative burdens which are disproportionate to their size," Krancheva continues.

For her, those entities should only be required to provide a few mandatory disclosures. She reinforces her point noting that the users of financial statements typically have a limited need for supplementary information from micro-entities.

Bid to control profession

One measure attracting particular criticisms is the proposed establishment of a state-funded national accounting council in the country. APAC's public criticism slams ICPA's proposal as conflicting with "basic challenges" in budgeting and spending faced by the government, currently facing a "large 'hole' in the budget and frightening levels of public debt."

Further, it adds: "the provisions of the accountancy draft bill provide extremely wide powers to this [ICPA] council and its president." In particular, these include requirements that the president of the national accounting council be a member of ICPA and that the president of ICPA be allowed to approve members of the newly formed body.

It highlights Article 23 of the draft bill as stating the obligation of "all institutions, undertakings and individuals in Bulgaria" to lend assistance and provide "any further information required by the president of the council".

According to APAC's response, the penalty for failing to do so will be "fines and financial penalties as provided in the administrative penalty clauses of the draft bill".

APAC's criticism of the national accounting council is damning:

"What is impressive is that the whole draft bill concerns most of all [the] establishment of a new government body, referred to as the National Accounting Council, having wide powers, which is not dominated by a public need but is led by the striving of the ICPA to govern and control not only the auditing, but the accounting practice in Bulgaria as well."

Another criticism levelled by APAC against the proposed bill centres on its omission of "micro-entities", the smallest business entities considered by the EU directive.

According to APAC: "The draft bill gives definitions for small, medium-sized and large enterprises, however it has no definition of a micro-entity, thus respectively does not provide any exemptions for this group of entities."

The association stresses that exemptions for micro-entities is integral to the EU directive itself and criticises the bill for setting different, "rather low" limits for what is considered a micro-entity.

"In this way the draft bill of the ICPA does not provide for exemptions for all micro-entities, which is provided in the directive," states APAC.

The association argues that the omission is tantamount to a contravention of the directive's principle of 'think small first', as well as conflicting with the Bulgarian government's development roadmap for 2014-2018, which focuses heavily on the promotion of economic competitiveness through SMEs.

"We consider the mandatory audit criteria, proposed by ICPA rather low and non-compliant to the specific conditions and needs of the small undertakings and the users of their financial statements," states APAC.

"In practice, in this way a lot of the small undertakings would be subject to mandatory audit by a member of ICPA," it notes.

APAC adds that the 693 members ICPA has across Bulgaria have direct corporate interest in increasing the number of businesses subject to mandatory audit "as it will be performed by them". Writing in *Kapital Daily*, a Bulgarian newspaper, Krancheva described the law as "protecting private corporate interests of a handful of auditors while threatening the interests of SMEs in Bulgaria". She added the move by ICPA was part of the organisation's bid to control the country's accounting profession and that over the past few years "numerous attempts" had been made to do so by different industry stakeholders.

ICPA was not available for comment. ■

Fortune favours the brave

While the SEC settlement with Chinese firms of the Big Four puts an end to over a year of out-of-court negotiations, some believe it's a sign of capitulation on the part of the SEC. **Carlos Martin Tornero** reports

The US Security and Exchange Commission (SEC) has accepted the settlement agreement offered by the Chinese firms of the Big Four to halt the current proceedings for their refusal to hand over the audit work of Chinese clients listed on US stock exchanges.

Since January 2014, Deloitte, EY Hua Ming, KPMG Huazhen and PwC Zhong Tian faced a six-month suspension from practising before the SEC, which was subsequently appealed on the grounds of a possible conflict between US and Chinese securities laws.

Throughout 2014 the SEC granted several extensions to allow for the discussion of an out-of-court settlement, especially, after the SEC received some of the requested audit work through the China Securities Regulatory Commission, its counterpart.

The current settlement halts proceedings against the Big Four, but not against BDO China Dahua, a former member firm of BDO International, which wasn't part of the settlement offer (see box).

The Big Four will pay $500,000 each, acknowledging they didn't produce the documents upon the SEC's request, thus violating the Sarbanes-Oxley Act, but "without admitting or denying" other findings.

In addition, the settlement imposed on the Big Four the obligation to comply with similar requests for documents that the SEC could issue in the next four years. And the SEC can resume the current proceedings, start a fresh one, or impose an automatic six-month bar on the firms.

The SEC enforcement division director Andrew Ceresney says the settlement showed the recent progress in obtaining documents from registered firms in China.

"The settlement also holds four of the firms accountable for previously violating US rules, and makes clear that should production of documents cease, the SEC can restart the administrative proceeding," Ceresney says. Prior to the announcement by the SEC, Peking University accountancy professor Paul Gillis wrote in his blog that a deal between Chinese regulators, the SEC and the PCAOB should be in place before such a settlement with the accountancy firms could be reached.

"US regulators would be foolish to let the Big Four off the hook before they get such a deal," Gillis wrote.

Gillis argued that the crux of the question regarding the cross-border cooperation is that China had refused to allow the firms to turn over the audit work to the SEC or PCAOB, and therefore any deal needed to be struck with Chinese regulators and not with the accounting firms.

As of September 2014, there were 160 Chinese companies listed in the US, of which 43 were listed on the NASDAC, 63 on the NYSE and 10 on the OTC.

A spokesperson for EY said: "EY is pleased this matter has been resolved given the potential for significant harm to investors and the global capital markets of further proceedings. We look forward to continued progress by the US and Chinese regulators on all matters related to cross-border cooperation."

TOP 20 ACCOUNTING FRIMS IN CHINA

Rank	Name	Revenue (RMB million Yuan)	CPAs	Staff
1	PwC China	3,351.4	959	6,053
2	Deloitte China	2,881.2	800	5,686
3	Ruihua CPAs	2,775.9	2,335	7,887
4	BDO China Shu Lun Pan CPAs	2,509.1	1,811	7,244
5	Earnst & Young China	2,364.3	911	4,464
6	KPMG China	2,347.2	616	3,454
7	Pan-China CPAs	1,341.5	1,389	3,839
8	Da Hua CPAs	1,237.9	976	4,113
9	ShineWing CPAs	1,175.2	1,096	3,783
10	PKF Daxin CPAs	1,100.6	1,032	3,400
11	Baker Tilly China	1,029.2	747	2,674
12	Grant Thornton China	795.8	744	2,412
13	China Audit Asia Pacific CPAs	659.2	616	1,252
14	Zhonghui CPAs	633.5	385	1,226
15	Union Power CPAs	511.1	407	1,684
16	CHW CPAs	481.0	505	1,347
17	Xinghua CPAs	418.1	483	1,391
18	Reanda CPAs	413.5	428	1,070
19	Jonten CPAs	383.9	404	1,565
20	Zhongxingcai Guanghua CPAs	328.2	527	1,285

Source: *CICPA*

■ TIMELINE

22 January 2014	US SEC administrative law judge issues initial decision to ban Chinese Big Four firm and censures BDO Dahua
12 February 2014	The US SEC division of enforcement files a petition for review concerning aspects of the judge's decision, including remedies imposed on Dahua CPA
14 February 2014	Chinese Big Four appeal the US SEC ban
9 May 2014	The US SEC grants the petition for review and rules it would determine what sanctions if any are appropriate
6 February 2015	The US SEC issues an order accepting offers of settlement from the Chinese Big Four
26 February 2015	The US SEC division of enforcement proposes to withdraw its petition for review with regards to Dahua CPA

Source: *The Accountant*

SEC associate director of the enforcement division Antonia Chion says the settlement is an important milestone in the SEC's ability to obtain documents from China. "Of course, we hope that it is an enduring milestone," he continues. "The settlement provides a path forward for obtaining enhanced future cooperation from the Big Four firms." However following the announcement, professor Paul Gillis tells *The Accountant* this settlement does a disservice to investors and argues that US regulators have capitulated to its Chinese counterpart.

***The Accountant*: You have maintained that a comprehensive deal between the US and Chinese regulators should precede any settlement agreement between the SEC and the Big Four. Are you surprised by the announcement?**

Paul Gillis: I think the SEC decided a comprehensive deal with China was not possible, so it acted in this way to prevent the disruption to the capital markets that would have been the consequence of the Big Four getting banned.

***TA*: In your opinion, what should be the remit of such a deal between regulators?**

Gillis: The SEC needs unfettered access to documents in China related to Chinese companies that list in the US. Chinese companies should not be permitted to list in the US unless they are able to be subject to all US laws.

***TA*: Have the US regulators been foolish letting the Big Four and their clients off the hook before that regulatory deal is achieved?**

Gillis: I think they have capitulated to Chinese regulators, creating the risk that investors will be hurt in the future.

***TA*: How will it be different for the fifth firm involved, BDO China Dahua? Why do you think this firm didn't settle the case with the SEC?**

Gillis: Dahua is no longer part of BDO and it no longer audits US listed companies. I expect the SEC eventually drops the case against them. [See box out]

***TA*: You suggested a settlement before the regulators' deal falls short of investor protection requirements. However, the Big Four must cooperate in the next four years when perhaps such a deal might be already in place. Could the settlement be considered a step in the right direction for cross-border cooperation?**

Gillis: The Big Four have agreed to cooperate, but China has retained the power to determine what US regulators see. I expect China will be more cooperative than in the past, unless the case involves a sensitive issue with a state-owned enterprise or a politically connected individual.

***TA*: You said the PCAOB shares some of the blame as it allowed the Chinese Big Four firms to register despite their potential to be non-compliant with all aspect of US law. Could the PCAOB de-register them afterwards or does it have any other defence mechanism?**

Gillis: I think the PCAOB faces a similar situation as the SEC. The only meaningful action it can take against the firms is deregistration, and that is just a step too far.

The PCAOB needs to do inspections, and perhaps it will be permitted to do so, but only in a way that Chinese regulators can firmly control.

■ DAHUA CPA

The Initial ruling of US SEC administrative law judge Cameron Elliot in January 2014 censured and barred the Chinese units of the Big Four from auditing companies that do business in the US for a period of six months. But the judge determined that Dahua CPA, a former BDO member firm, should only be censured and not barred because it was no longer doing business in that field.

The US SEC enforcement division appealed this decision arguing that the ruling on Dahua CPA should be on the same terms as those against the Chinese Big Four. Following the settlement between the US SEC and the Chinese units of the Big Four, the US SEC enforcement division proposed to withdraw the portion of its appeal relating to Dahua CPA. The commission still needs to rule on this proposal, but if approved, this would put an end to proceedings relating to Dahua CPA for now.

***TA*: Following the July 2014 US-China Strategic and Economic Dialogue meetings in Beijing, PCAOB chairman James Doty told *The Accountant* he hoped an agreement to inspect PCAOB-registered mainland Chinese audit firms could be reached soon. What's the difference between the comprehensive deal between regulators you mentioned and the one Doty referred to then?**

Gillis: I think Doty wants the kind of comprehensive deal that I think is necessary. Obviously, the PCOAB deal has not come and I believe Doty is going to have to decide between a weak arrangement like the SEC has achieved, or no deal at all.

***TA*: Regarding the $500,000 sanction for violating the SOX Act, you said it neither punishes the firms nor deters bad behaviour in such a lucrative market. What would have been a more appropriate or exemplary outcome in your opinion? Also it doesn't seem clear what findings of the case the Big Four firms either admit or deny in the settlement agreement. What's your take on that?**

Gillis: A fine of $500,000 is insignificant for these firms. Obviously the SEC felt a ban against the firms would hurt their clients more than the firms. The language about not admitting or denying the findings was obviously crafted to save face for both the SEC and the firms, but does little for investors. ■

Additional reporting by ***Vincent Huck***

Mozambican profession in the making

During a coffee break at the World Congress of Accountant in Rome last November, Mario Sitoe, the first president of the young Mozambican institute, talked to **Vincent Huck** about the difficulties of building a profession at local level bearing in mind the necessities of a globalised world

For the last three years, after three decades of civil war, followed by more than 10 years of transition from a socialist economy to a market economy plagued by economic scandals, Mozambique has been building its national accountancy profession. But local difficulties – legislative, political and economic – added to the complexity of a globalised world, mean Mozambique is struggling to match increasingly high international standards. Matio Sitoe has been elected as the first president of the Mozambican Order of Accountants and Auditors of Mozambique (Ordem dos Contabilistas e Auditores de Moçambique, or OCAM)

***The Accountant*: At which state of development is the Mozambican accountancy profession?**

Mario Sitoe: The profession in Mozambique is in a way taking its first steps as a profession, because up until now anyone could call themselves an accountant and practise accounting. So our objective and challenge at the moment is promoting the profession so that people understand the importance of accounting. To that effect we've launched OCAM through the law N.8/2012 from 8 February 2012. There was a transition period of a year in order to build the institution and its governance. On 6 June 2013 we had an election in which all the governing bodies of OCAM were elected and that's when I became the first president of the organisation.

Since then we've been developing the basis for the development of the profession: promoting the importance of accounting, transferring accountancy functions which were under the dominion of the state to OCAM, and training professionals.

***TA*: How many members do you have registered with OCAM?**

Sitoe: We have 2,700 members, of those 2,600 are accountants and 100 are auditors.

***TA*: So auditing only represents a small proportion of the profession?**

Sitoe: Yes, in terms of the number of practitioners, but all the top international networks, the Big Four plus BDO, have representation in Mozambique.

***TA*: Regarding Mozambican professionals what's their typical profile?**

Sitoe: Professionals in Mozambique are very varied. There are professionals who were trained in Mozambique, others trained in Europe and some trained in South Africa, the latter because of geographical proximity. At the same time the globalisation of markets brings people of different origins to practise in Mozambique. What we want is to develop a real Mozambican school, through the universities and in accordance with international standards and best practices; this is our challenge.

***TA*: You mention the geographical proximity to South Africa, is the fact that it's an English speaking country a challenge for Portuguese speaking Mozambique?**

Sitoe: The only thing that divides us from South Africa is the language. But in today's world we can't hide behind the language and we need to overcome this hurdle because we live in a world ever more globalised and interconnected. Even our regional body [the Pan African Federation of Accountants] is dominated by English. And our affiliation with IFAC goes through a greater integration of OCAM in the region, so we need to stop complaining about the language barrier. We need to find a way to develop our profession in accordance to international standards and those are in English.

***TA*: What's the situation with regards to the affiliation with IFAC?**

Sitoe: It's work in progress. I actually met some representative of IFAC earlier today. The criteria of affiliation are on its website, but there's always a distance between what you can read and what you can discuss. So we presented our projects and our vision to them. And we also presented the training programme we're going to put in place for the next three years to raise the profile of our members.

***TA*: Tell me about your training programme?**

Sitoe: We started the process last month. We're offering free-of-charge 30 hours of classes in accounting, tax and ethics in 13 of Mozambique's main cities. This is done through the funding that we've received from the World Bank in the context of our cooperation with CPA Ireland.

The beneficiaries of this programme are accountants, but also agents from the Revenue Authority. It's true that Mozambican accountants lack skills, and this has to be recognised, but tax agents don't have a sufficient knowledge base for the work they're doing either. What we're saying with this programme is the profession is important and it doesn't matter if you're a tax agent, working on the side of the government, or an accountant, who works independently. What's important is that everyone knows and understands accounting, so that accountants can help clients prepare financial information and tax agents are able to control this information.

Also you have to remember that at the moment we're in a grandfathering period in which the access to membership at OCAM is open to everyone practising accounting. So there's a need to homogenise the knowledge base and raise the profile and skills of our members.

***TA*: So at the moment if you can prove that you're practising accounting you can become a member of OCAM? Is that the only requirement?**

Sitoe: Exactly, whether you're good or bad at it doesn't matter, you can become a mem-

MOZAMBIQUE - MARKET SNAPSHOT							
National firm	International affiliation	Joined in	Revenue ($)	Total staff	Expats	Partners	Expat partners
BDO Mozambique	BDO	2001	4,500,000	122	5	3	2
Grant Thornton Mozambique	Grant Thornton International	NP	NP	38	8	3	2
NNC - Normas, Números e Controle	HLB International	2014	29,600	6	1	5	1
Moneris Mozambique	MSI Global Alliance	2013	NP	14	NP	3	NP
BKSC Auditors & Management Consultants	Nexia International	2014	705,700	45	NP	2	NP
PKF Moçambique Auditores e Consultores	PKF International Limited	2007	350,000	10	2	2	1

Source: *The Accountant*; NP= Not provided

ber, because the problem in Mozambique today is that you meet practising accountants with doctorates and others who barely finished high school, so their skills and know-how fluctuate. And I don't mean to say that the one with the doctorate knows more; it might be the case that the doctor doesn't know very much about accounting.

So from now up to 2017, people can easily get in, so that we build a strong membership base for OCAM, but then we'll filter from the inside. By 2017 those who want to enter will take an exam. But those already registered will need to demonstrate by 2017 that they meet the same requirements as the new entrants taking the exam. However OCAM needs to help them in this process and that is what the grandfathering period is all about.

***TA*: When you say 'proof that you are practising', does it matter if you've been practicing for one day or 10 years?**

Sitoe: It doesn't matter, you can enter OCAM regardless, but once you're in, there's a training plan to comply with independent of your experience and background. The message is if you register with OCAM you have to comply with this programme. If you don't have the capacity to follow this process then don't count on us.

***TA*: Part of this training programme includes IFRS. Has Mozambique adopted IFRS?**

Sitoe: Mozambique adopted IFRS in 2010 in accordance with the law N.70/2009. But we've done so with some filters; we've adopted an accounting system divided in two: IFRS for large companies and local standards for SMEs.

***TA*: Was IFRS implementation a challenge?**

Sitoe: Large companies have qualified staff who can manoeuvre in this process. For the smaller companies it's trickier. But the real challenge is in education, because universities, the cradle of the profession, lack knowledge of IFRS.

As I mentioned, as of 2017, a student qualifying from university who wants to become an accountant will have to sit an exam, and we will face some issues if the universities don't offer curricula that match this exam requirement. So we're currently in discussions with universities to come up with a plan to tackle this issue.

However, Mozambican universities are autonomous and independent so it's not always easy to make our recommendations heard. But universities will have to realise that if they don't follow OCAM's recommendations, the probability of their students failing OCAM's exam will be high and in turn their university's reputation might suffer.

***TA*: What about the equivalent of IFRS in the public sector, IPSAS? Has it been adopted by Mozambique?**

Sitoe: This is a work in progress. OCAM is the sole representative of the profession in Mozambique, therefore accountants in the public sector will have to integrate OCAM as much as accountants in the private sector.

And because we're dedicated to grow the Mozambican profession in accordance with international standards and practice, IPSAS will become a reality in Mozambique. At the moment we have the Administrative Tribunal, the entity which audits the government agencies.

The Tribunal has the power to judge and condemn and it's completely independent from government. The report of the tribunal has to be approved by parliament, so it works in the following way: the government has to present its budget to parliament, which has to approve it.

Then the budget is audited by the tribunal, and in turn this audit is presented for approval to parliament. So there's some level of transparency, but this is done on a local basis which is different from the international standards.

Therefore if you ask me now what's the state of implementation of IPSAS in Mozambique, the answer is zero. This is our challenge for the coming year and one we want to tackle. Accounting is migrating from a technical base of dealing with accounts and balance sheets to a situation of reporting.

We already accepted and made that move in the private sector with IFRS; we still have to take this new reality to the public sector.

***TA*: Does OCAM also have the role of regulator?**

Sitoe: OCAM is for now the regulator. But there's a provision in the 2012 regulation which rules for the creation of an independent regulator which would join some of the internal bodies of OCAM with some of the state agencies and therefore act in a way like an umbrella organisation bringing together the functions of OCAM and of the state in regulatory matters. This regulator will be called Alta Autoridade Para a Regulamentação da Profissão Contábil [High authority for the regulation of the accounting profession].

***TA*: How do relations between OCAM and the state works in terms of regulation?**

Sitoe: The state has the initiative for laws, but for anything to do with accounting, OCAM would be involved in the preparation of new laws or alteration of existing ones.

In the case of an accounting scandal for example, OCAM has disciplinary powers. But bear in mind, OCAM doesn't have the resources for investigation, and we don't

have judges to assess and issue rulings. So we're in a situation where OCAM exercises the disciplinary work and refers judiciary works to the state, which will prosecute and treat it as in any other case of delinquency. But OCAM is the initiator of the process.

***TA*: Is there a deadline or road map for the creation of the regulatory body?**

Sitoe: The law doesn't specify a deadline; we're working on it.

***TA*: You mentioned CPA Ireland earlier what's its role in all this?**

Sitoe: The creation and strengthening of OCAM is the result of a project funded by the World Bank. So the World Bank provided the funds and the service provider selected to support the emergence of OCAM and the Mozambican profession was CPA Ireland. In other words, CPA Ireland is, in a way, our godfather.

***TA*: We've been talking with members of the Rwandese delegation here at the Congress, which also had CPA Ireland as their "godfather" in a similar way to OCAM, and they were a bit critical of the nature of their relationship. What's been your experience?**

Sitoe: We've very good relations with CPA Ireland and the partnership has been very fruitful. We made great progress thanks to our collaboration, and I'm confident that we will benefit even more from this partnership in future. However I think I understand where the criticism might come from. As I explained earlier, the World Bank is funding the project and CPA Ireland is carrying out the work. But what happened is that CPA Ireland subcontracted most of the work to a consultant [KOSI Corporation], and therefore we felt, in a way, that we lacked a close accompaniment from CPA Ireland.

I'm guessing that's what the Rwandese were telling you. And I can understand because CPA Ireland has very strong foundations. It's one of the most organised organisations I know in the world. But giving help to someone doesn't mean taking a model and copy-pasting it somewhere else.

You have to look at the processes and what is the best way to transpose them in accordance to a different reality: different laws, different cultural beliefs and so on. But having said that, we've very good relations with CPA Ireland which allows us to talk and exchange, and point to the mistakes and virtues at all times. We met with them yesterday and talked openly about this.

***TA*: And where would you like to see improvements?**

Sitoe: We want more direct intervention from CPA Ireland. For example, in the area of training, what we want is for the head of continuing professional development at CPA Ireland to come and tell us: 'The admission exams are organised like this, and corrected like that, the admission of member is done in this way and so on'. We would rather see CPA Ireland do this work than a third-party.But don't get me wrong; those are just ways to improve relations. It doesn't mean to say that CPA Ireland and OCAM are in conflict – far from it. We're partners and this is all part of a process for both partners to profit from the cooperation.

***TA*: Aside from your role at OCAM do you also practise in a private firm?**

Sitoe: I'm the partner in a small and medium firm and also work in an institute of public investments, not as an accountant but as a director.

***TA*: What are the challenges in the market for firms?**

Sitoe: The challenges are huge. Until now culturally a businessman thought his accountant could be his son, his cousin or something like that. Because accounting was focused on tax and he just wanted someone who was going to fill in his tax forms.

What we're telling the revenue authority is that there shouldn't be a single tax form, whatever its complexity or simplicity, that should be filed without having been looked at by a certified accountant. We're making progress in terms of businessmen understanding the importance of the profession, but the road is long because they're used to resolving an accounting issue with $5. We need and are trying to instil a culture of accountancy in the country based on reporting.

***TA*: You mentioned earlier that there are very few auditors in Mozambique. What are the audit requirements for businesses?**

Sitoe: For the moment only listed and public companies have to undergo an audit. There are talks about putting in place audit thresholds, but it's not really something that's on the table.

***TA*: Do you have audit rotation rules?**

Sitoe: Yes. According to our commercial code, businesses have to change their auditors every five years. Now some change every two or three years, but five years is the limit set by the law.

***TA*: Being here in Rome at the World Congress of Accountants, you get to meet peers from all around the world; what's the message you share with them about Mozambique?**

Sitoe: I want to highlight that Mozambique needs to change and we're working with a great focus on the culture of accounting, which is a driving force of today's globalised world. There is a new vision. We used to practise accounting preparing accounts and reporting on things that happened in the past, but today it's about helping businesses based on what is currently happening in the market. This is a radical change.

The Mozambican profession needs help from all the parties involved: the government, civil society, businessmen, investors, stakeholders. It's necessary to understand the importance of the profession in the economic context; without this no society can evolve.

Note:

CPA Ireland responded to some of the views expressed in this interview. It said CPA Ireland and KOSI have worked in partnership on these projects. In addition it stated that Peter Rutaremera, president of the Institute of Certified Public Accountants of Rwanda (iCPAR), lauded the support received from CPA Ireland and KOSI during the period of their project in Rwanda (at the IFAC Conference in South Africa). Separately in writing to Sean Sweeney as CEO of KOSI expressed his thanks for the tireless efforts of KOSI.

At the time of publication, iCPAR had not responded to The Accountant's *enquiries on the matter.*

Bleak prospects ahead for the graveyard of empires

International donors and private investors may well be pouring money down the drain if the reconstruction of Afghanistan doesn't include a robust accountancy industry able to protect their investments and the future of the war-torn country's people. **Carlos Martin Tornero** investigates

Afghanistan's President Ashraf Ghani knows a thing or two about state-building. A former World Bank adviser and an anthropologist by training, he returned to his country in the post-Taliban era and served as finance minister in the transitional government between 2002 and 2004.

He did not take part in the subsequent governments of Hamid Karzai. Instead he co-founded the Institute for State Effectiveness in 2005 with Clare Lockhart, adviser to the UN and the Afghan government. Later in 2008 both authored a book with the revealing title of *Fixing Failed States: A Framework for Rebuilding a Fractured Word*.

It was in that capacity that Ghani gave a TED talk in Oxford about how to attract capital for the project of rebuilding a broken state. In that talk, as early as 2005, he said that the aid system was broken.

Ghani, though, clarified: "I'm all for it; after all, I raised a lot of it. Yes, to be exact, I managed to persuade the world that they had to give my country $27.5 billion."

"And still it didn't work?" the host of the event asked him, to whom Ghani replied: "It's not that it didn't work. It's that a dollar of private investment, in my judgment, is equal at least to 20 dollars of aid, in terms of the dynamic that it generates."

Ghani concluded the talk stressing that if the goal is to build states that can credibly take care of themselves, international aid must end within a definable period.

Almost 10 years on from that talk and Ghani is at the helm of a state whose economy and private sector is still in the making. So too are the financial sector and the underpinning accountancy industry.

The accountancy profession, which should provide international donors with assurance, transparency and accountability when pouring taxpayers' money into the reconstruction of Afghanistan is, at present, a shambles.

But Ghani has already shown interest in the accountancy industry. Offering his own personal views to *The Accountant*, Muhammad Basheer Juma, partner at EY Ford Rhodes Sidat Hyder, says Ghani's tenure is tipped to boost the Afghan accountancy profession.

According to Juma, shortly after taking office Ghani invited the CEOs of the telecom and banking companies to brief him on what accounting framework they are following.

Juma says Ghani is the type of leader who will be introducing measures to improve trustworthiness in Afghanistan.

"It's a good thing that the president of a country is asking stakeholders which accounting framework they are following. Because of that tone at the top, we're expecting the accounting profession will improve in Afghanistan, despite the regulation not yet being in place," Juma says.

That unofficial briefing with the heads of the telecom and banking sectors must have happened at about the time Ghani was about to attend the December 2014 London Conference on Afghanistan, co-hosted by the UK government, which is one Afghanistan's top international donors .

"There are billions of dollars of the Americans, billions of pounds of the UK. International donors are also accountable to the public. They need to respond to their people, who should know where their money has gone," Juma observes.

At the London conference, in his closing remarks, Ghani mentioned how Afghanistan has been successful, against the odds, in making two of the three transitions that international media had predicted it would be incapable of making.

First, a political transition from the authority of Karzai to the government of national unity that Ghani shares with chief executive officer Abdullah Abdullah, his rival in the 2014 election. Secondly, the security transition, as the national security forces prepare to assume their duty. And thirdly, the economic transition.

In that respect, Ghani said that one of the first things he did in office was to tackle a "grave risk to the reputation of Afghanistan called the Kabul Bank". As such Ghani has pushed for reopening the court case of this banking scandal, which occurred in 2010, and which some commentators say has been as damaging for Afghanistan as the Taliban rule.

"You, our partners, don't need to remind us that corruption is a problem or institution-building is the objective. We own those and we will deliver," Ghani said in London.

AFGHANISTAN

At a glance

POPULATION	33.9m
UNEMPLOYMENT RATE	5.6%
GDP	$20.3bn
GDP GROWTH	4.8%
GDP PER CAPITA (PPP)	$1,112
FDI (NET INFLOWS)	2.3% of GDP
INFLATION (CPI)	5.8%
CURRENT ACCOUNT BALANCE	0.2% of GDP
BUDGET BALANCE:	0.1% of GDP
CORRUPTION PERCEPTIONS INDEX 2013	Ranked 172 out of 175
HUMAN DEVELOPMENT INDEX	Ranked 169 out of 187

Source: *The Accountant*, IMF estimates, UNDP, WB and Transparency International

TELECOM SECTOR AUDITS

Company	Audit firm
Roshan	KPMG
MTN Group (South Africa)	PwC
Etisalat (UAE)	Deloitte
Afghan Wireless	KPMG
Afghan Telecom	EY
Source: *The Accountant*	

The Kabul Bank scandal saw top management and shareholders (including relatives of president Karzai) setting up a Ponzi scheme which helped them embezzle almost $1bn, taking advantage of the country's weak financial system.

In the absence of robust institutions, the recovery of such a sum has proved a hard task. At the time the missing money represented almost 6% of GDP, making the Kabul Bank failure one of the largest banking scandals in history, relative to the size of the Afghan economy.

In the aftermath of the scandal, journalist Jon Boone was covering Afghanistan for UK newspaper *The Guardian*. In one of his dispatches about the Kabul Bank case, Boone reported Ghani's theory that the bank's management was conspiring to destroy the "too big to fail" bank, in the hopes that the Americans would quietly rescue it.

In conversation with *The Accountant* from Pakistan, where he is now based, Boone recalls an encounter with Ghani. By that time he hadn't formally declared his intention of running as president of Afghanistan, a rumour he confirmed to Boone in their meeting.

They met in the garden of Ghani's house, "not particularly big or ostentatious" as Boone recalls, and located not far from the now ruined Darul Aman Palace, a very famous building on the periphery of Kabul.

The banking scandal was among the topics they discussed. Now on the back of the reports informing of Ghani's determination to reopen the case and seek tougher penalties for those held accountable, Boone highlights the symbolism of that announcement: "I think this is very important to him, a sort of unfinished business. He was the first post-Taliban finance minister and played a critical role in setting up a new currency, reforming the central bank, and getting the banking and mobile phone industry off the ground."

At a time he couldn't do anything to stop the corruption. The fact that such illegal activity was happening right under the banking authorities' noses is something that must have made Ghani very angry, according to Boone's account.

Regulatory vacuum

Before the collapse of the Kabul Bank, in February 2009, the World Bank (WB) published its Report on the Observance of Standards and Codes in Accounting & Auditing (ROSC A&A). As expected, the WB's assessment reflected the situation of a country thrown into turmoil by decades of continuous conflict.

As such the ROSC A&A portrayed a country whose accounting infrastructure was also left in ruins after the war. Afghanistan, still today, lacks an accounting regulator, a standard-setting authority and a professional body.

Financial statements of state-owned companies, a majority of Afghanistan's economy given the weakness of its private sector, are not externally audited. The only promising exception is banks and telecommunication companies, which should pass statutory audits (they even should change the auditor every three years). But more importantly, the education system is also unable at present, to supply qualified national accountants who could back the reconstruction of the country and provide the assurance that international donors and private investors demand.

"Anybody in Afghanistan who's skilled in the preparation of spreadsheets or Excel could be known as an accountant," Muhammad Basheer Juma

The shortage of fully qualified accountants has been modestly tackled by importing professionals from neighbouring countries, chiefly Pakistan and, to a lesser extent, from India and Bangladesh.

The ROSC A&A found that in 2009 there were just 16 audit firms registered with the Afghanistan Investment Support Agency (AISA), which is tasked with licensing companies, and fewer than 20 qualified accountants in Kabul.

The WB staff who prepared the ROSC A&A issued a number of policy recommendations (see box), which according to the majority of sources consulted by *The Accountant* have not been implemented.

Grant Thornton Pakistan was the WB's consultant for that project. Saqib Rehman Qureshi, now vice-president at recently franchised firm Grant Thornton Afghanistan, was closely involved in the ROSC A&A fieldwork.

Qureshi confirms that the picture captured by the WB's report remains a true reflection of contemporary Afghanistan's accountancy profession. However he distinguishes two layers, international and domestic, within the industry.

"There is no regulator, no oversight, no prescribed qualification, and no experience requirements to practise the profession. Therefore if you are not part of a properly recognised brand and you work under the strict regulation of the brand itself, you don't have good prospects and have to face many problems in Afghanistan," Qureshi says.

In addition, the way AISA grants licences to businesses, including accounting firms, remains a serious concern.

As Juma points out, there are certain "indulgers" who get an AISA license and provide accounting and auditing services despite lacking the relevant qualification to do so. "On the licence it's written what type of activity can be done. There are certain organisations, like one logistics company, whose owners don't hold a professional accounting qualification but get registered with AISA and can start their business," Juma says.

HLB Ijaz Tabussum & Co managing partner Ijaz Akber regrets the current "unfortunate" system in place to obtain an AISA licence, which reflects the overall regulatory gap.

However it's a different story when it comes to tendering for international development work. Akber says that international donors only accept financial services rendered by firms whose partners are chartered accountants. "The firms should be member of some recognised professional body outside Afghanistan and have satisfactory quality rating in the country of origin," Akber says.

Ghost firms

Faheem Rauf, partner of FRANTS & Co, PKF International's member firm in Afghani-

PERCEPTION-BASED MARKET SNAPSHOT

Rank	Afghan firms	Partners	Expats	Total staff	Leadership
1	KPMG Afghanistan	1	26 (Pakistan)	70	Partner-country director (Said Arab)
2	EY Ford Rhodes Sidat Hyder	n/a	n/a	n/a	Partner (Muhammad Basheer Juma)
3	Grant Thornton Afghanstan	3	12 (Pakistan)	35	President (Shahid Ahmed Khan); vice-president (Saqib Rehman Qureshi) and partner (Mian Aamir Mumtaz)
4	Horwath MAK	4	9 (Pakistan)	55	Managing partner; parter assurance and advisory (Muhammad Abdul Basit)
5	Deloitte	n/a	n/a	n/a	n/a
mid-tier*	Alliot Gulf Dubai	2	n/a	15	Managing partner (Hadi Shahid) and directors (Abid Ali/Danishwar Khan)
	Baker Tilly Mehmood Idrees Qamar	12	5 (Pakistan)	11	Managing partner (Mehmood Razzak) based in the Karachi and partner heading Kabul branch and Peshawar office.
	BDO Ebrahim & Co (under registration)	n/a	n/a	n/a	President (Zulfikar Ali Causer)
	HLB Ijaz Tabussum & Co	4	7 (Pakistan)	20	Managing partnter (Ijaz Akber); two partners in Afghanistan; full time country director
	Orion Audit Financial Consultancy Services (Kreston International, correspondent firm)	3	n/a	16	Managing partner (Zaffar Iqbal)
	PKF FRANTS	1	12	25	Partner (Qamar Ali Mumtaz)

Source: *The Accountant;* Notes: (*) Alphabetical order; One firm among the top five reported contracted revenue in 2014 worth $625,000; one mid-tier firm reported revenues of $350,000

stan, says that AISA has introduced a rule which requires audit firms to count at least one qualified accountant among their senior management.

"However, the rule is not monitored as to whether a qualified accountant is actually investing significant time to oversee the regular business of a firm, such as client acceptance, quality assurance, capacity building of the staff and ensuring that deliverables issued by the firm meet required quality standards," Rauf says.

He adds that this situation has allowed "ghost firms" that don't live up to the most basic standards to grow like mushrooms.

Rauf singles out from that category firms that have international affiliations. Those international links allow them to follow international standards and access professional resources, such as the ethical code set by the professional institute or regulator, which the parent firm might have adhered to.

At Baker Tilly Mehmood Idrees Qamar & Co managing partner Mehmood Razzak, says there are about 62 national and international AISA-registered firms. In some of those firms, chartered accountants have been granted a practise licence from AISA and then they have delegated the office to unqualified or partly qualified accountants.

"They hardly visit Kabul and the unqualified staff are signing audit reports on their behalf even though, under ethical requirements, the practising partner should not delegate his signing authority to an unqualified or partly qualified accountant," Razzak says.

AISA was approached by *The Accountant* for comment but its board members were travelling and unable to give interviews at the time of writing.

At EY Ford Rhodes Sidat Hyder, Juma says, perhaps hyperbolically to stress the huge gap in the education system, that anybody in Afghanistan who's skilled in the preparation of spreadsheets or Excel could be known as an accountant.

"There are a large number of firms whose partners are not accountants. But because they have worked with a bank or in the finance department of an NGO for a couple of years, they term themselves accountants and there's nobody stopping them from doing accounting work," Qureshi observes.

Muhammad Abdul Basit, assurance and advisory partner at Horwath MAK UAE in Afghanistan, says the absence of the most basic regulation is proving to be detrimental to the perceived credibility of the profession.

And yet, Basit notes, major international donors such as USAID, UNDP or WB require high-quality services in the field of audit and consultancy, which can only be delivered by experienced accounting professionals.

Challenges

In such an under-regulated environment, the practitioners working on the ground outline for *The Accountant* several challenges they face in their day-to-day lives.

Juma underscores the lack of legal requirements to make statutory audits compulsory for companies. "The law does not require financial statements to be audited, except when international donors encourage it," Juma says. He adds that only audits for banks are compulsory, as required by the central bank (known as Da Afghanistan Bank or DAB). In addition, the main telecom companies all have Big Four firm auditors in place.

HLB's Akber says that in the absence of regulatory authorities, the reliance on IAS and IFRS becomes fundamental. However the challenge is then at client level: "Mainly to educate the clients about our requirements, which they find difficult to comprehend," he says.

Baker Tilly International's Razzak also highlights the lack of common reporting standards as some organisations prepare their accounts according to the relevant GAAP and others follow IFRS. As a result the format of audit reports and financial statements is far from being standardised throughout the country.

But more worryingly, Razzak says: "Low balling in audit fees and corruption in the selection of auditing firms for audit in private organisations, NGOs and even at ministry levels has become the norm."

Razzak's words raises concerns about audit quality, particularly on the back of President Ghani's announcement about reopening the Kabul Bank case.

It remains uncertain to what extend this would mean reviewing the conduct of indi-

viduals directly or indirectly involved in the case. For example, would it limit, or by contrast increase the liability of the external auditors of the time, PwC's Pakistani member firm A F Ferguson?

Invited to participate in this survey, a spokesperson for the global network said PwC doesn't Scurrently have an active presence in Afghanistan and therefore wasn't available for further participation. The Big Four firm, however, keeps the situation under review and this may change in the future according to the spokesperson.

Representatives of PwC's firm in Pakistan were also invited to participate but weren't available for comment at the time this magazine went to press.

The case is not new – an audit firm caught in the crossfire of the fall of an institution commanded by corrupt managers. A classic example of the audit expectation gap – to what extent is an auditor the victim or the rather negligent party who made things worse by being unable to detect an accounting scandal that emerges at a later stage?

In any case, the Kabul Bank collapse sent shockwaves through the entire financial system. More importantly, it has shaped the destiny of the accounting industry in Afghanistan, where the Big Four or still Big Six firms are different from those in more mature markets (**see box**).

Kabul Bank reopened

The findings of the ROSC A&A predated the banking scandal. The report stated that the banking sector was at the forefront of the Afghan accounting industry, featuring a more stringent legal framework which requires banks to pass an external audit.

The ROSC A&A also mentioned the proactive role of the DAB as banking regulator, encouraging the use of IFRS and issuing directives on the appointment, scope, qualifications and procedures that auditors should abide to.

Despite the Kabul Bank collapse, the banking sector is still leading the accounting industry, but one wonders what the findings of the ROSC would have been had the WB published the report today.

Razzak says the case has stirred an uncertainty in the market and placed a question mark on the integrity of the accountancy profession as a whole. He says that PwC's member firm A F Ferguson, being the auditors of Kabul Bank, has been blacklisted in Afghanistan and may be sued for negligence.

"President Ghani's decision to reopen the case will bring transparency and accountability and it may prove to be a step towards the development of an ethical business and professional environment," Razzak says.

The Independent Joint Anti-Corruption Monitoring and Evaluation Committee (MEC) an independent agency working in Afghanistan conducted a public inquiry into the Kabul Bank crisis.

The MEC report stated that from 31 December 2008 A F Ferguson became the auditor of the bank replacing Dubai-based Behl, Lad and Al Sayegh (now a Geneva Group International member). The change was due to a directive issued by the DAB in which only five major firms were approved to do the audit of Afghan banks.

In February 2010, the very same month when the banking scandal broke, A F Ferguson had issue a clean audit opinion. According to the MEC report, the auditors concluded that the internal controls and policies relevant to prepare financial statements were consistently applied the Kabul Bank.

"However, this conclusion is questionable given that the Da Afghanistan Bank examiners consistently noted that the bank was not complying with their own policies and procedures in other areas," the report reads.

HLB's Akber says that so far, there have been no legal reforms. "The recent announcement by the president of Afghanistan to reopen the case will certainly add to the diligence of the accounting profession," Akber says.

He notes, though, that the negative publicity generated has made the accounting industry to be more careful. That includes his firm: "All the partners have decided that we are not going for bank audits. For the time being we are not interested until the sector has stronger regulatory bodies."

Interestingly enough, Alliot Group's Dubai-based member firm Alliot Gulf had lost its bid for the Kabul Bank contract to KPMG in 2005. Later that year Kabul Bank notified the DAB that KPMG would not conduct the audit because they were preoccupied, giving no further explanation, according to the MEC report. As a result Alliot reapplied, but the DAB rejected the firm again.

With the benefit of hindsight, Hadi Shahid, managing partner of Peshawar-based Alliott Shahid Hadi, says he's very grateful the firm didn't get the contract, although he notes these cases also occur in the best countries of the world. "At that time it looked very negative but sometimes losing is better. God is kind to human beings much more than we think of," Hadi jokes.

PKF's Rauf believes reopening the case would be good for the profession if as a result an audit law is passed clearly defining the role and responsibilities of the auditor.

"The auditor shall then be able to design procedures and policies in accordance with these defined parameters," he says.

At Horwath MAK, Basit says the case has badly affected accounting firms. He says not only PwC but Deloitte was delisted from the DAB's panel of auditors. "Deloitte has again started operations here but are not allowed to do audits of local banks. Deloitte was reprimanded by name by president Karzai. Audit firms are very much cautious while auditing state-owned organisations."

The US Agency for International Development (USAID) had been supporting capacity-building projects at the DAB to help regulate the banking sector since 2003. One of those projects was the Economic Growth and Governance Initiative (EGGI), which ran from 2005 to April 2011, with a mandate to provide trainers and experts to build oversight capacity, but not to supervise banks themselves.

To that end, advisors from BearingPoint

BANKING SECTOR AUDITS

Afghan banks	Audit firm
Afghanistan International Bank	Deloitte
Afghan United Bank	Crowe Horwath
Azizi Bank	Crowe Horwath
Afghanistan Commercial Bank	KPMG
Bakhtar Bank	Crowe Horwath
The First Micro Finance Bank	KPMG
Maiwand Bank	KPMG
Ghazanfar Bank	Grant Thornton
Branch of foreign banks	**Audit firm**
Arian Bank Iran	Crowe Horwath
Bank Alfalah	KPMG
Habib Bank Pakistan	EY
National Bank of Pakistan	EY and KPMG
Punjab National Bank of India	KPMG
State-owned banks	**Audit firm**
New Kabul Bank	Grant Thornton
Bank-e-Millie Afghan	Crowe Horwath
Pashtany Bank	KPMG

Source: Da Afghanistan Bank and *The Accountant*

(acquired by Deloitte in May 2009) were embedded at the DAB.

In the aftermath of the Kabul Bank collapse, USAID requested the assistance of the US Office of Inspector General (OIG) to conduct a review determining whether its staff or Deloitte's advisors were negligent in failing to report the fraud.

Baker Tilly International's Razzak says: "The OIG report on the collapse of Kabul Bank was highly critical of Deloitte's failure to warn anyone of fraud at the bank. It resulted in the termination of Deloitte from the EGGI consulting project."

In particular the OIG report stated that BearingPoint and Deloitte advisers had had several opportunities to learn about the fraud and that they could have been more aggressive in following up on Kabul Bank's problems. As a result USAID staff had fewer opportunities to be aware of the fraud. However as the MEC report also noted, Deloitte's lead adviser reportedly indicated that his professional judgement was "probably clouded by the Afghanistan context of incessant rumours of fraud and corruption".

The Accountant sought Deloitte's views about the Afghan industry, but didn't reply to the invite sent to participate in this survey.

Boone reported for *The Guardian* about this issue. One of his chronicles mentioned a frustrated interview with a BearingPoint consultant who tried to blow the whistle, allegedly being sacked as a result. On the phone from Pakistan, Boone recalls how disappointing this episode was. The whistleblower was already back in California and despite agreeing to talk to Boone, he never picked up the phone again.

Boone highlights as a significant issue that those embedded western consultants, although paid for by international donors, they actually worked for the Afghan government ministries and were possibly subject to confidentiality clauses.

He says: "They had this weird split responsibility and couldn't actually tell their American paymasters what was going wrong. I know this was a source of huge frustration to the American embassy. But those consultants would have known what was going on."

"Low balling in audit fees and corruption in the selection of auditing firms for private organisations, NGOs and even at ministry levels has become the norm," Mehmood Razzak, Baker Tilly International

Market

At the time of writing there are talks going on between the International Monetary Fund and the Afghan Ministry of Finance to sell the state-owned New Kabul Bank or merge it with two other state-owned banks.

Grant Thornton Afghanistan replaced PwC as the New Kabul Bank auditors, and therefore was given the books of the fallen banking giant, whose assets and liabilities are kept separately in a good bank and a bad bank. Grant Thornton Afghanistan has also been involved in tasks pertaining to the settlement between the old and the New Kabul Bank.

Grant Thornton Afghanistan's Qureshi says that PwC was not only was blacklisted but also fined by the DAB, and had to close its office in Kabul. He says A F Ferguson is a pretty good firm in Pakistan that offers good quality and points to an isolated deviation of standards on the part of PwC at the time to explain the case.

Qureshi met the partner of PwC who issued the audit report and had a long discussion about the reasons why the firm didn't discover the fake numbers delivered by the Kabul Bank management. "I couldn't get a very good response out of it. The other issue is that firms were working in Afghanistan as branch offices, so the main partners were not here. In a normal situation you can never issue a report until the senior partner checks it out," Qureshi says.

He continues: "That was the source of the whole problem; most of the work might have been done through the junior and inexperienced staff. That situation happens in branch offices when the partner is not physically present in the country."

In that respect Qureshi claims his firm takes pride in the fact that it's the only audit and accountancy firm that has attained a direct franchise from the international affiliation network, "while the rest of the firms representing international brands in Afghanistan are operating as branch offices of neighbouring countries".

The newly established practice of Grant Thornton, however, will have to induct an Afghan partner within the next three-to-five years to maintain the franchise, which is very difficult to find because of the lack of qualified accountants in the country. That future partner would add to the current three from Pakistan.

As HLB's Akber explains, the links with the neighbouring Pakistani profession date back at least to the 1990s when most international NGOs made Peshawar their camp base during the interminable Afghan civil wars. Those NGOs approached firms to provide professional services.

"Subsequently, these NGOs started settling in Afghanistan and they continued hiring chartered accountants firms from Pakistan. The firms also started opening offices in Afghanistan. HLB Ijaz Tabussum installed a partner in 2007," Akber says.

Akber continues: "On paper we're not a branch because I'm a partner in Afghanistan and Pakistan, in both places. And there's a country director sitting permanently in Afghanistan. I keep flying between Islamabad and Kabul – it's just a 40-minutes flight."

Thursday and Friday is the weekend in Afghanistan. Akber says that's when he returns to Islamabad to continue working, being back again in Kabul by Sunday.

"I'm almost 67 years old and I'm continually working seven days a week, still leading good firms in Pakistan and Afghanistan with four and two partners, respectively," he says.

Similarly, PKF FRANTS decided to open a branch in Kabul to cater the needs of clients operating in the Afghan development sector. Rauf says the firms have recently been inducted as member firms of PKF International.

Razzak at Baker Tilly International adds: "Afghanistan was a war-torn country in need of accountancy professionals. This created the opportunity for firms to enter the market. And with the US supporting Afghanistan to stand on its feet, the market is even more attractive."

Alliott Group established presence in Afghanistan in 2005. Shaid says it has an independent firm in Pakistan and a separated firm in Afghanistan with a resident partner and a resident director.

Grant Thornton has a permanent presence since 2009 through its Pakistani firm and now through its franchised Afghan practice. Crowe Horwath and Baker Tilly International arrived in 2011.

A newcomer to the market is BDO, which is in the process of establishing a branch

through its Pakistan firm BDO Ebrahim & Co, and Kreston International, which welcomed correspondent firm Orion Audit Financial Consultancy Services.

I asked EY's Juma, what his top 10 firms in Afghanistan would be. He responds that although there are no official statistics, there's a market perception in which the ranking could be based.

"KPMG is known for being the oldest firm, having entered 12 years ago. We entered the market in 2009. So I can't say we are number one but we're ranked together with KPMG. We both have a good relationship with the other when it comes to contributing to the profession in terms of education and training. Our competition is a separate thing," he says.

Juma's perception-based ranking gives third spot to Grant Thornton, which would be followed by Horwath MAK and Deloitte.

Juma's top five makes sense when Horwath MAK's Basit mentions his competitors: "KPMG and EY, because PwC and Deloitte were blacklisted in the Kabul Bank issue." He may be deliberately omitting Grant Thornton, his most direct rival.

Basit adds: "It is a small market, semi-saturated. Customers are not very much knowledgeable about the nature of their requirements. Less than 50 audit firms are registered with AISA and my understanding is that more than 90% of the business is taken by the top 10 firms."

Asked the same question, HLB's Akber stresses there's no exact data available in that regard, but ventures to say that no more than 15 recognisable firms are in the market. "While a number of them are small, the lion's share is taken by KPMG, EY, Horwath MAK and Grant Thornton," Akber says. "HLB's position comes after the above named firms but before the cluster of other medium and smaller firms."

Akber is possibly the most senior Pakistani accountant in Afghanistan. All of them practise in Kabul and are qualified members of the Institute of Chartered Accountants in Afghanistan are from Pakistan (ICAP), no more than 20 in total according to Akber. As all the leading accountants in Afghanistan are from Pakistan, I ask Akber if they mingle or hang out together as he seems to know them all by name.

"Yes, we do. I should be the most senior. I still believe that EY partner Muhammad Basheer Juma is younger than me." He continues the name dropping: "KPMG partner is also younger than me. He was previously my partner when we opened the office in Kabul but left me and joined KPMG."

REPORT ON THE OBSERVANCE OF STANDARDS AND CODES 2009

Policy recommendations	Status
A National Steering Committee to coordinate the financial reporting and auditing reforms	Failed: not formed
A professional accountancy body should be established	Failed: not formed
Accounting and Auditing Board to regulate the profession	In progress*
Eliminate contradictions between existing laws and promote consistency	In progress*
Adopt accounting and auditing standards	In progress*
Enhance the capacity of all regulators	Failed: uncertainty remains
Forge regional and international collaborations for establishing a professional body	Partly accomplished: ACCA

Source: World Bank and the International Monetary Fund; (*) Subject to enactment and implementation of the Accountancy Law

After referring to a few more colleagues whose names I can't catch, Akber says they usually get together as they complement each other. There appears to be fair play among them despite the competition: "The lines in the market are very clearly marked," he adds.

For his part, Razzak says the accountancy market is regaining its stability after the elections last year and that political stability is encouraging private investment in Afghanistan. "There are 62 national and international accounting firms registered with AISA. The top 10 firms account for 60% to 70% of the market share, particularly in the banking sector, international donors, international referrals and assignments," he says. "We are in direct competition with all audit firms excluding the Big Four, although our firm approach is that we always try to place ourselves as the best alternative to the Big Four."

Citing rough estimates PKF's Rauf says the number of AISA-registered accounting firms, big and small (including the above mentioned "ghost firms"), is 250 of which 30 are actively working in the market.

Grant Thornton's Qureshi points out that the overall market is attractive and with high returns, however security risk is still a main concern for Europeans and Americans.

He counts more than 25 registered accounting firms, with the top six taking more than 85% of the market share and naming as competitors KPMG, EY and Deloitte.

"We have covered almost 70% of the financial sector of Afghanistan," Qureshi. "With three years rotation times, we've audited six of the eight commercial banks, two of the three state-owned banks and two of the four branches of foreign banks."

He adds: "We've recently performed the compliance audit of Afghanistan's first-ever exploration and production sharing contract, agreed between the Ministry of Mines and China Petroleum."

The firms consulted by *The Accountant* for this survey also mention among their clients the whole spectrum of international development agencies and their so-called implementing partners: USAID, the UK Department for International Development, the United Nations Development Programme, the WB, the Danish International Development Agency and the US Special Inspector General for Afghanistan Reconstruction, just to name a few.

That gives a clear picture of the dependence on international aid and the lack of a mature private sector which seems to worry President Ghani, who envisages a more ambitious future for Afghanistan's economy. But at least the practitioners surveyed by *The Accountant* see exciting prospects for the emerging Afghan accountancy industry.

Rauf points out that Afghanistan's developing economy is full of opportunities and has areas with great potential for professional services that have not been exploited.

"Proposals are under consideration to adopt and implement IFRS for SMEs," he says. "Finance departments of large organisations would need significant resources to handle such a huge turnover of clients. Besides audit and assurance, management consultancy and advisory will also increase with the evolution of the industry," Rauf says.

KPMG Afghanistan director Muhammad Danish underscores the fact that the economy is primarily dependent of international donor's aid money. Unlike the private sector, where the audit of financial statements

isn't mandatory, aid agencies require tougher standards. This offer ample opportunities for Afghan firms and accountants, Danish says, to progress their careers in the development sector.

BDO Ebrahim & Co partner Zulfikar Causer says that if the security situation improves, Afghanistan is expected to experience a period of economic growth. "Accounting firms can play a great role assisting the capital market and regulators in monitoring the performances of entities."

HLB's Akber agrees and elaborates on the link between the development of the accountancy profession and the security situation. "US troops will remain in Afghanistan until the end of 2016," he says. "In 2013 everybody was saying that the troops would leave in 2014, but because of the US investment in the region, I was of the view that the departure would be delayed," he says.

Silk Route

Akber adds that there's another reason for the US to keep its security forces on the ground: The US is working seriously on the revival of the ancient Silk Route, the ancient trading roads between China and the Mediterranean.

"And the Chinese government is going for it more aggressively, considering opening three routes. One of them would go from Central Asia through Afghanistan and Pakistan. I think that the Silk Route will add to the trade and business activity in this area. And accounting services will go up as a result."

If that happens the demand for qualified accountants will skyrocket in Afghanistan.

KPMG's Danish says that given all the problems the Afghan industry faces, local qualified accountants are hard to find, and an exact number of them is not available.

"We estimate that there are not more than 100. Accounting firm heavily relies on expatriates mainly coming from neighbouring countries such Pakistan, India, Sri Lanka and Bangladesh," he says.

At Baker Tilly International Razzak says: "ACCA has recently penetrated in the Afghanistan market and a national professional accountancy body is in the making. Therefore, in a matter of years, Afghanistan will produce enough professional accountants to fulfil the market's needs."

But in the meantime an issue of concern for Razzak is visas and work permits. He says: "CA [ICAP qualification] and ACCA students are called on from Pakistan offices, which creates problems in processing their work permits and visas due to political reasons."

HLB's Akber says he wrote a letter to AISA suggesting that the visas of people like them, who are investing in the country, should last for five years instead of the current six months. Every six months the procedure needs to be resumed. "During that period we can't leave the country because we have to hand the passport to the visa authorities."

Accountancy law

Among the recommendations outlined by the ROSC A&A was the enactment of a law to help the industry get off the ground. After five years it seems that the Afghan parliament will soon pass such a law, which is expected to be the cornerstone of the emerging profession.

Rod Monger, professor at the American University of Afghanistan, drafted the bill as part of a project financed and commissioned by the WB. Monger tells *The Accountant* that different countries' regulations were taken as models, to come up with a modern law that adapts the most suitable solutions to the Afghan context.

"It requires using international standards at every level," Monger says. "The law is conformed to meet the membership obligations of IFAC. It's a sort of a plug and play approach."

The law also sets up the education and experience required to become a qualified accountant. Under its legal provisions, ACCA clearly gets the upper hand in the Afghan market. "ACCA is written into the law. It says you have to pass all ACCA papers to become a licensed accountant," Monger says.

In January a delegation of the Afghan Ministry of Finance came to London to sign a Memorandum of Understanding with ACCA aimed at assisting with the implementation of the law, which includes the creation of a national professional body.

Grant Thornton's Qureshi raises two concerns with regard to the implementation of the law.

First, he says, the Ministry of Finance would want to take the control of the situation, placing the institute and regulator under its structure. "It's a bit of a concern in what direction they will go," he says.

TOP TEN DONORS FOR AFGHANISTAN 2012-13

Country	$m average
United States	2,237
Japan	852
Germany	532
United Kingdom	387
EU Institutions	253
AsDB Special Funds*	202
International Development Association (IDA)	179
Australia	166
Norway	127
Turkey	121
TOTAL	5,056

Source: *OECD*

The second concern is related to the requirement of being an ACCA-qualified in order to become an accountant. "The ACCA is a foreign qualification not specifically designed for Afghanistan. I'm of the view that the future Afghanistan Accountancy Board should have its own standards, because it's a primitive economy," he says.

Qureshi suggests a gradual approach: "There's no stock exchange or capital markets. So initially you would go over the simple accounting standards and once the economy is more developed you can have more complex standards such as IAS 22 [for business combinations], derivatives, financial instruments, etc."

President Ghani has already served his first hundred days in office and one of the biggest challenges for him will be to live up to the Afghan people's expectations, presumably high given Ghani's brilliant resume.

As *The Guardian* correspondent Boone puts it, Ghani might ironically be 13 years too late. To some extent, a politician like Ghani would have been more useful, he says, at a time when there was much greater international presence and assistance in Afghanistan.

"Karzai, instead, was a sort of old-fashioned tribal ruler, who did old-fashioned Afghan politics extremely well. But he was totally hopeless at a modern technocratic government. And the Kabul Bank is an example of a government that didn't understand these issues."

Now that Afghanistan is moving towards a post-NATO economy, Boone observes, some of Karzai's tribal governance skills could come in handy just to keep everyone happy. ■

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