

ACCOUNTING
AND AUDITING



EDUCATION



STRATEGIES FOR IMPROVEMENT
ARMENIA

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Centre for Financial
Reporting Reform



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ARMENIA

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LIST OF ACRONYMS

ACCA	Association of Chartered Certified Accountants
CPA	Certified Public Accountant
CPD	Continuing Professional Development
ICAEW	Institute of Chartered Accountants in England and Wales
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standards
IPD	Initial Professional Development
IPSAS	International Public Sector Accounting Standards
ISA	International Standards on Auditing
PAO	Professional Accountancy Organization
PIE	Public Interest Entity
PQP	Professional Qualification Program
ROSC	Report on Observance of Standards and Codes
SME	Small and Medium-sized Enterprise
SOE	State Owned Enterprise
VET	Vocational Education and Training

EXECUTIVE SUMMARY

A competent accounting profession is one of the key pillars to high-quality financial reporting, which in turn supports greater transparency, helps to attract investments, and assists small and medium enterprises gain visibility over their current performance, and plan their future growth.

Armenia was at the forefront of accounting education reforms in the recent past, in particular with the establishment of several qualifications offered by the Armenian Association of Accountants and Auditors over 10 years ago. These qualifications were developed in cooperation with the Association of Chartered Certified Accountants (ACCA–UK), which ensured the quality of the qualifications offered, as well as their international recognition.

A decade has passed since the program was launched, and an overhaul of accounting education in Armenia is overdue. One of the triggers to implementing significant changes are the several laws which are expected to be adopted in Armenia in 2019, and which have a direct impact on accounting education:

- A package of laws which will address accounting, auditing, and audit oversight.
- A revised Education Law which will lead to the development of sectoral competency frameworks in Armenia.

Diagnostic studies completed by the World Bank have helped identify areas of weakness in the curriculum of Universities, which are consistent with those observed throughout the STAREP Region. Information Technology is one area of competence where accountants and auditors around the World need to improve their skills, and in Armenia the Government recognizes the importance of technological change throughout society and is considering establishing a separate Ministry specifically dedicated to the High Technology Industry¹.

Fully competent accountants and auditors are not only trained by Universities and Professional Accountancy Organizations, as they also need to acquire some key competencies through practical experience, and this is another area where local stakeholders have identified the need to improve the requirements and practices.

Finally, in a global environment where technology and globalization are leading to ongoing change in practices, a culture of lifelong learning for practicing accountants and auditors needs to be nurtured, and new continuing professional development options and tools implemented.

¹ This area currently falls under the purview of the Transportation and IT Ministry.

INTRODUCTION

Strengthening Auditing and Reporting in the Countries of the Eastern Partnership (STAREP) was launched by the World Bank's Centre for Financial Reporting Reform (CFRR) in 2013 to support the design and implementation of sound corporate financial reporting reforms that strengthen business and investment climates and bring closer integration with the European Union. STAREP is a regional programme supports the following countries: Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine. The project aims at assisting the participating countries in adopting and implementing international standards and promoting the alignment of financial reporting frameworks with the international best practices and EU standards.

Component 2 of the STAREP Program "Accounting Education Reform" aims specifically to promote the development of accounting education aligned with International Accounting Education Standards and the educational requirements of the EU's Statutory Audit Directive (i) at the University level; (ii) for professional qualification; (iii) for continuing professional development of those already qualified. Armenia participates in this community through its representatives of Yerevan State University (YSU); the Armenian State University of Economics; and the Association of Accountants and Auditors of Armenia (AAAA).

The purpose of this concept note is to summarize the results of the diagnostic activities that have been conducted throughout the STAREP Program, as well as to document the direction of future reforms and substance of capacity-building activities required to support greater compliance with International best practices in accounting education and International Education Standards (IESs) published by the International Accounting Education Standards Board (IAESB). The analysis and recommendations included in this report were jointly developed by the CFRR team and local stakeholders. The draft accounting and auditing legislation package currently before Parliament makes it timely to consider the opportunities for further reforms.

OVERVIEW OF THE STATUTORY FRAMEWORK

The main legislation establishing corporate financial reporting requirements in Armenia includes the Law on Accounting (2003), amended in December 2008. It requires application of IFRS effective 2009 for companies meeting an “implied definition” of public interest entities (PIEs). The obligation to apply IFRS will be expanded only after an official translation of IFRS is published by the Government. Any entity meeting the definition of SME as stipulated in the IFRS for SMEs, is allowed (but not required) to apply IFRS for SMEs instead of full IFRSs. An official translation of IFRS for SMEs has been issued by the Government. Micro entities can follow a simplified Chart of Accounts.

Requirements for financial statements to be audited are specified in various laws and regulations including the legislation on Banks and credit organizations. The audit requirement for large companies contained in the Law on Accounting was removed in 2014. Audits must be conducted by auditors licensed by the Ministry of Finance. Open joint stock companies, banks and branches of foreign banks are required to publish their annual financial statements. Article 11 of the Law on Audit Activity establishes that auditing standards are to be adopted by the Government of the Republic of Armenia and be based on international auditing standards. In 2011, the International Standards on Auditing, 2009 version, were officially adopted as national auditing standards by the Government’s Resolution of December 29, 2011. An Audit Supervisory Inspectorate was established by a resolution of the Government in 2010, and is placed under the Ministry of Finance (MOF) which is currently the official audit regulator in Armenia.

The Association of Accountants and Auditors of Armenia (AAAA) was established in 1997, and achieved associate membership of IFAC in 2005. The association is formally recognized by the Ministry of Finance of the Republic of Armenia as a professional accountancy organization. With no direct responsibility for the adoption of a quality assurance (QA) review system, the AAAA promotes the need for establishing a mandatory QA review system for auditors. In 2013, with the support of international firms operating in Armenia, the AAAA launched a voluntary Audit Quality Review and Monitoring (AQM) program for its members. It created procedures, review questionnaires, an assessment methodology, and agreed on other terms for the AQM process.

A draft legislative package, including a new Accounting Law, a new Auditing Law, as well as a Law on Regulation and Public Oversight of Accounting and Auditing has been submitted to Parliament. Under the proposed new legislation, the AAAA will be delegated power to (i) translate IFRS into Armenian for updating and incorporating into Accounting Standards of the Republic of Armenia (ASRA), (ii) conduct examinations for accountants and auditors, (iii) control the quality of audits performed by its members, and (iv) enforce the IFAC-compliant code of ethics for practicing accountants and auditors.

PROFESSIONAL ACCOUNTANCY ORGANIZATIONS AND UNIVERSITIES

The Association of Accountants and Auditors of Armenia(AAAA) is the main professional organization for accountants and auditors in Armenia. Since 2002, the AAAA has been offering certification for accountants and auditors, and is also involved in the certification of auditors under the authority delegated by the Ministry of Finance through Government Decision No. 748-n of 2013. As of January 2019, the AAAA has 268 full members and 57 associated members.

The AAAA has developed a high-quality certification scheme which includes three levels of certification, based on the number of papers passed: Certified Bookkeeper (obtained after the passage of the first paper on the financial accounting framework and the second paper on financial information for management), certified accountant (obtained after passing further papers on Armenian business law, Armenian tax legislation, financial management and control, and preparation of financial statements, plus 3 years or relevant working experience) and certified auditor (obtained after completion of the first six papers as well as the seventh paper on audit and internal control, plus 3 years or relevant working experience). Because 90% of the AAAA papers are based on ACCA papers, obtaining the highest level of the AAAA certification (certified auditor) provides individuals with exemptions from up to eight of the ACCA's assessment papers. At present, AAAA has 105 individuals enrolled in its certification scheme. Full members of AAAA are required to complete 40 hours of continuing professional development annually.

Armenia has around 3 million inhabitants and a comparatively large number of tertiary institutions—over 50 public and private higher education institutions. Of these, 27 are public, non-profit universities; 4 are interstate universities (defined as institutions established following an agreement between the Republic of Armenia and a foreign government, or with state participation). The majority of students (over 80%) still enroll in public and interstate institutions.

The Republic of Armenia is one of the 48 countries that joined the European Higher Education Area (EHEA) and the Bologna Process by signing the Bergen Communiqué in 2005. Major reforms in Armenia's Higher Education system accomplished during the last ten years include the establishment of a quality assurance agency that has been incorporated into the European Association for Quality Assurance in Higher Education (ENQA) and that was added to the European Quality Assurance Register for Higher Education (EQAR) in 2017. The standards and procedures for quality assurance, as well as for institutional and program accreditation, were developed and approved consistent with the European Standards and Guidelines for Quality Assurance of 2011. The European credit transfer and accumulation system (ECTS) was also introduced in 2011. Funding of tertiary education has been

modernized and improved through the introduction of more efficient principles and mechanisms for financial management. In conjunction with these measures to enhance the quality of education, Universities have been granted a greater level of autonomy to enable them to align the content of their programs with market needs. An updated list of professions was approved in 2015. One of the outcomes is that auditing will no longer be a distinct specialization, but will continue being taught as a topic.

In 2004, a system based on two cycles: Bachelor – four years and Master– two years was introduced by the Law on Higher and Postgraduate Professional Education. The status of the previous specialist's qualification (five years) has been converted to a Master's Degree qualification. Ph.D. programs are also part of the framework of higher education. Ph.D. studies are comprised of a research program which lasts three years.

There are both Public and Private Universities and Institutions offering accounting degree programs in Armenia. There are two main public universities in Armenia offering degrees with a specialization in Accounting, Yerevan State University (YSU) and the Armenian State University of Economics.

In the private sector, the International Accountancy Training Centre (IATC) offers customized courses for beginners and practitioners, as well as a Masters' Degree in Accounting and Audit over a 2-year period. The Masters' Degree is recognized by the ACCA which offers 8 exemptions to its graduates. IATC was founded by a Consortium which includes the "Istituto Formazione Operatori Aziendali" (IFOA), London Business School (LBS), and the Institute of Chartered Accountants in England and Wales (ICAEW). IATC is recognized by the Ministry of Education and Science of the Republic of Armenia.

The College of Business and Economics (CBE) offers a 4-year undergraduate degree (BA in Business) offered as part of a liberal arts education at the American University of Armenia (AUA). Students enrolled in the BA in Business program have the option of pursuing a General Business degree, or choose from three other tracks: Accounting, Marketing or Economics. Each track consists of five concentration courses, three of which are mandatory and two are elective. The degree is recognized internationally.

Yerevan State University (YSU) was established in 1919 and currently is the leading university in the Republic of Armenia. The Economics Faculty was established in 1934. In 2014 it was renamed the Economics and Management Faculty. The Finance and Accounting department at YSU (established in 2001) is one of five departments within the Economics and Management Faculty. The Faculty has 9 graduate programs – one of them in Accounting and Audit. Starting from the academic year 2016-2017 a new undergraduate degree program (Finance) was offered. Accounting is deeply integrated into the Finance Program at the undergraduate level. The Finance and Accounting Department also offers three graduate programs at the Masters' level - Finance since 2001, and Accounting and Audit since 2010 and Banking since 2018.

The Undergraduate Degree includes a 4-week experience period at the end of the sixth academic semester for full-time students and eighth academic semester for distance learning students. The requirement is increased to 8 weeks for the Masters' Degree Program. In both cases, students are required to gain practical experience with the organizations the Faculty has practical experience agreements with. Four exemptions in ACCA's certification program are available to students who complete the undergraduate degree in Accounting and Audit.

The annual intake is over 300 students each year at the Undergraduate level, and 50 at the Masters' level. The Faculty is primarily financed by fees from students (70%) and Government subsidies (30%).

The curriculum for undergraduate courses is reviewed on average once every three to four years; once every two to three years at the masters' level. Teaching staff update the course syllabi annually. There are formal procedures to evaluate the quality of the teaching via student surveys; the results are discussed within the Chair of the Department.

The Department has a strategy to manage its interface with the corporate world; there are active linkages with the local PAO, corporate entities and government, including:

- 3-4 events a year are organized to match students with interested companies;
- A student society within the Faculty. Professionals from Auditing companies are invited to attend society events in order to discuss specific accounting issues with students and their practical application;
- The Examination commission at the undergraduate level usually includes a business community representative;
- There are Internship Programs through bilateral agreements with more than 20 companies.

Armenia State University of Economics was established in the 1930's as the Cooperative Institute of Economics. In 2006, the status of University was granted, and the current name of the University adopted. Today, the University is the home of over 7,000 students, 40 professors, and 90 assistants. The University offers both undergraduate and masters' degree programs, on a full time, part-time, and distance-learning basis. The Accounting and Auditing Faculty was established in 2011, and currently hosts over 1,000 students. The Undergraduate Degree Programs offered is a 4-year program, and the Masters' Programs takes 2 years to complete. The Department Faculty have published their own textbooks and produce over 30 research papers each year. Students are required to complete an internship, half of which are completed at local audit and assurance companies.

CHALLENGES AND WEAKNESSES OF ACCOUNTING EDUCATION IN ARMENIA

A draft Law on Higher Education has been developed and is expected to be adopted in the second half of 2019. Once the law is adopted, the development of Sectoral Qualifications Frameworks (25 to 30 areas) should be developed to complement the National Qualifications Framework (NQF, adopted in 2011 and revised in 2016). The NQF has 8 levels, covering general, VET and higher education; currently levels 6-8 are reserved for higher education. The finalization of a Qualifications Framework for accountants and auditors would help guide reforms to programs.

One of the challenges experienced by Universities is the absence of a tradition of linkage with the private sector and other stakeholders in developing degree programs. One of the consequences of this lack of cooperation is a failure to implement modern internship programs which develop the competencies of students. Another consequence is the ability of “for profit” private sector training institutions offering poor quality programs to gain market share. The revised law on Higher Education (2019/2020) will require mandatory accreditation and address the issue of poor quality, private sector education providers who have been able to take advantage of gaps in legislation until now.

With respect to the coverage of learning objectives mandated by IFAC and internationally recognized accounting education programs, the CFRR completed the Benchmarking tool for both leading Public Universities in Armenia. The conclusion was that financial accounting, financial reporting, and management accounting were areas of relative strength. The areas of weakness requiring significant upgrading² are: Management and Ethics, Performance Management and Decision Making, Audit and Assurance Engagements, and Audit Testing and Reporting³.

The need to develop training in professional values, ethics, and attitudes is well recognized by local accounting educators. Unlike other topics, these cannot be taught using traditional courses and examinations. The relevant knowledge and competencies are best imparted through a combination of traditional courses (i.e. to teach the content of the Code of Ethics) and case studies which are best undertaken through group activities.

Another knowledge topic which requires constant monitoring and updating is Information Technology. Not only is the lifespan of any course material relatively short, but the IT skills and competencies required of a professional accountant and auditor should be imparted throughout a range of courses, rather than exclusively through a stand-alone course.

² Some of these gaps have since been addressed by the Universities surveyed

³ As well as Public Sector Accounting in the case of one University

Bringing local language textbooks up to date with the latest accounting and auditing standards is a challenge in Armenia (and in all other STAREP Countries). Technical assistance programs funded by donors have traditionally translated internationally recognized professional accountancy qualification programs into the local language. This approach brings immediate and tangible benefits which include international recognition of the local qualifications. On the downside, the knowledge and skills required to establish and maintain an internationally recognized “home-grown” program are not developed.

Practical experience requirements. PAOs are able to enforce practical experience requirements which include a three-year working period under the supervision of a licensed auditor for aspiring auditors. There is a recognition among local stakeholders that practical experience requirements need to be strengthened. The current model based on length of employment needs to be transformed into a mentoring arrangement whereby the acquisition of relevant competencies is consistently monitored. The competencies required based on the area of practice or specialization need to be recognized. The function and specific competencies of Internal Auditors and Public-Sector accountants and auditors in particular have been ignored.

Continuing Professional Development regulations and practices require improvements. Compliance with the requirements set by the AAAA (40 hours of annual CPD,) require new legislation to become enforceable. Access to CPD offerings for accountants and auditors based in remote regions remains limited.

RECOMMENDATIONS

There are currently changes to legislation which are expected to be adopted during the course of 2019, and which will make it necessary to overhaul accounting education in Armenia. These changes relate to the new Accounting, Auditing, Professional Oversight Laws currently before Parliament, as well as the new Education Law.

The AAAA Program was developed 10 years ago and needs updating, especially in the context of the new accounting and auditing laws. The proposed new legislation will not only give a larger role to the AAAA in audit quality assurance and oversight, but more broadly will result in greater attention being paid to the quality of audit and assurance services provided in Armenia. Furthermore, sectoral Competency Frameworks are expected to be developed in the aftermath of the new Education Law being adopted.

When the above legislative changes are adopted, a thorough overall of accounting education which is significantly overdue will have a legal foundation and therefore opportunities to obtain the required funding. A structured approach to reforming accounting education should be undertaken, and this section of the report will outline the stages and activities to be undertaken for a successful reform.

STAGE 1: ESTABLISH AN UPDATED COMPETENCY FRAMEWORK FOR THE ACCOUNTING (AND AUDITING) PROFESSION IN ARMENIA.

WHAT: A Competency Framework clearly identifies and describes the requisite professional competencies and specifies proficiency levels and knowledge topics for each competence area that must be demonstrated in order for a candidate to be certified as a professional accountant. In addition to the Competency Framework (Appendix 1), detailed Competency Maps (Appendix 2) will document the links between the Competency Framework and the formal education and practical experience programs that are designed to give effect to the vision, that is to develop the competence of aspiring professional accountants.

The Competency Frameworks and Competency Maps will allow a breakdown of the competencies and skills which are to be acquired at different levels including University Education, Professional Education, Practical Experience, and Continuing Professional Development.

The Competency Framework and Competency Maps can also allow the specialization which is increasingly needed in Armenia, both in light of changes in business practices, but also as a result of the proposed legislative changes which will result in higher levels of accountability and therefore competence requirements of distinct categories of stakeholders, including:

- Private Sector Accountants
- Public Sector Accountants
- External Auditors
- Internal Auditors
- Board and Audit Committee members

WHY: In order to successfully develop and assess the competence of accounting professionals and students, it is necessary to specify a comprehensive and clear set of competency statements and requisite proficiency levels, along with the knowledge topics that support competence. The Competency Framework will serve as the foundation that ties together all elements of the programs for accounting students and professionals by:

- Supporting internal education and professional development programs at both University and Professional education level, including Continuing Professional Development (CPD);
- Defining requirements with respect to competence and expected behavior to support ethics and disciplinary processes;
- Providing a basis for evaluating and granting credit or exemptions for prior studies
- Supporting compliance with national, regional, and international requirements and expectations; and
- Supporting comparisons with other organizations, such as potential partners including other PAOs.

HOW: The development of a competency framework for the accounting profession in Armenia which addresses the needs of the local economy, incorporates relevant international standards and trends, and is adapted to the different segments of the profession will require a number of different stages to be followed:

- The research stage includes identifying relevant trends and standards in accounting education and business practices, collecting targeted stakeholder input, and developing a preliminary draft of the required competence domains, competency statements and knowledge topics. Competency Frameworks developed in other countries can also be reviewed and relevant sections adapted if appropriate.
- The consultation stage (sometimes referred to as practice analysis) aims at validating the proposed Competency Framework. A broad range of stakeholders need to be consulted including government, regulators, employers, clients, recently certified and experienced professional accountants, experienced accounting educators, and professional recruiters. The form of the consultations may vary depending on available resources and range from focus group meetings to extensive and detailed surveys.

- Finalization and dissemination stage. Based on the results of the consultation, the Competency Framework can be finalized, and needs to be validated by conducting a final, reasonableness check as to the completeness of the statements and knowledge topics, and appropriateness of the proficiency levels; and to ensure that the overall competency profiles are realistic.

STAGE 2: EVALUATE THE CURRENT PROGRAM GAPS

The new Competency Framework will provide a clear picture of the knowledge, skills, and attributes expected of professional accountants and auditors. Before embarking on developing new program elements for Initial Professional Development or Continuing Professional Development, however, it is essential to fully understand which program elements should be retained and to what extent the Framework is being covered, in order to allocate resources most effectively.

Evaluating the current program gaps would best be conducted in two stages:

1. In consultation with key stakeholders, review the current certification program elements. This would involve preparing a list of education, evaluations, and practical experience elements.
2. For each element, cross reference the components to the new Competency Framework: Each element of the program will have a number of components. For example, each course will be comprised of lessons or modules supported by textbooks or other materials. The question to be answered for each of these components is: “What competency (or competencies) is (are) supported by this component, and to what proficiency level?”

STAGE 3: DESIGN AND DEVELOP AN EXPANDED PROGRAM

Once the gaps in the current program elements have been determined, the most efficient and effective way to close those gaps needs to be determined, both in the education and training program for Initial Professional Development (IPD), and with respect to current deficiencies in the competence of practicing professionals through Continuing Professional Development (CPD).

The steps to be followed in Stage 3 are the following:

- Determine the scope: This includes establishing the scope of program elements to be re-designed, e.g., some levels of IPD education, IPD training, and/or CPD.

- Design and develop new elements and map competencies. This would include the following activities:
 - Determine whether competency gaps in IPD should be filled using education, exams/evaluations, and/or experience program elements.
 - Design an accreditation program and develop accreditation policies for tertiary-level education providers.
 - Design and develop new education and exam/evaluation program elements to assess competence.
 - Design and develop new practical experience program elements (e.g., requirements, mentoring, review processes, documentation).
 - Design and develop new CPD Program elements to help close competence gaps in existing professionals.
- Train instructors and trainers:
 - Select instructors and trainers with experience and/or aptitude in competence-based methods.
 - Involve instructors and trainers in the development and/or review of materials to maximize buy-in and familiarity.
 - Hold formal training sessions and provide resources for competency-based instruction.

STAGE 4: IMPLEMENT THE EXPANDED PROGRAM

This stage involves taking the actions necessary to properly implement the new program elements in education, evaluation, training, and CPD. This includes setting timelines, deploying resources, and evaluating results.

The steps to be followed in Stage 4 are the following:

- Plan and deploy resources: Determine the desired timeline and launch approach, ensure resources are in place.
- Run pilot / initial offerings.
- Evaluate and adjust: Monitor, document and assess results; make adjustments to program elements as required; establish continuous review and improvement processes.

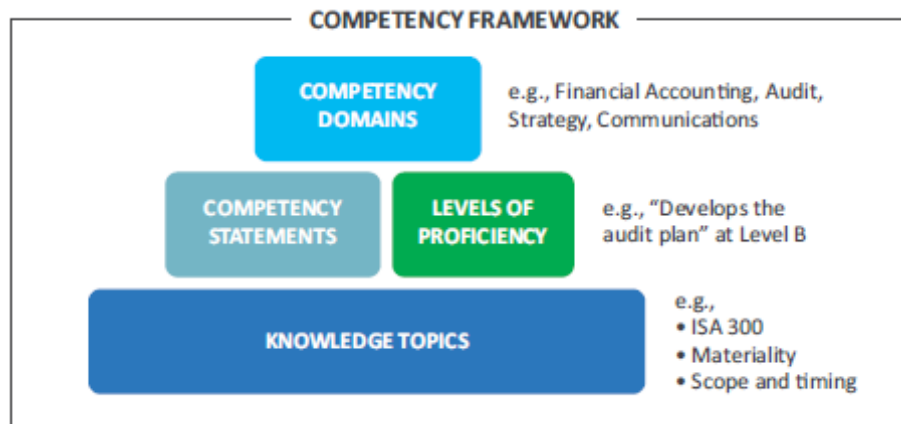
AREAS FOR CONSIDERATION

The training of instructors and trainers envisaged under Stage 3 will likely include a significant investment in developing technical and pedagogical skills. These will need to be enhanced as new standards will need to be covered and new teaching and assessment methods implemented. Case studies will need to be introduced in the curriculum, and group activities assigned to students as teamwork and collaboration competencies will undoubtedly be included in the list of competencies to be acquired by Professional Accountants and Auditors.

Greater recognition for AAAA and its members would likely result from the implementation of the above recommendations. Additional exemptions could be sought from ACCA, as well as recognition by other internationally recognized qualification providers and quality assurance organizations such as the European Foundation for Management Development (EFMD).

The implementation of the expanded program envisaged under Stage 4 will likely require a significant investment in new technologies. Accounting professionals need to be well versed in modern accounting and auditing software packages. They also need to be aware of technological developments which affect finance and technological threats to businesses. Furthermore, access to CPD offerings to accountants and auditors who reside in remote regions needs to be facilitated through online trainings.

APPENDIX 1. STRUCTURE OF A TYPICAL COMPETENCY FRAMEWORK



APPENDIX 2. STRUCTURE OF A TYPICAL COMPETENCY MAP

Knowledge Topic	Proficiency Levels*					
	Frame-work	Course 1	Course 2	PAO Exam	Expe-rience	Over-all
Accounting for:						
• Cash and cash equivalents	A	F	I	A	A	A
• Receivables	A	F	I	A	A	A
• Inventories	A	F	I	A	A	A
• Property, plant, and equipment	A	F	I	I	I	I
• Goodwill and intangible assets	A		I	I	F	I
• Depreciation and amortization	A	F	I	A	A	A
• Impairment, and disposition/derecognition	A		F	F	F	F
• Payables	A	F	I	A	A	A
• Provisions and contingencies	A					
• Long-term liabilities	A	F	I	I	A	A
• Owners'/shareholders' equity	A	F	I	I	I	I
• Earnings per share (basic, diluted)	A	F	I	I	I	I
• Financial instruments	A		I	I	I	I
• Investments in associates/significant influence	A		F	F	F	F
• Revenue recognition/revenue from contracts with customers, and accounting for revenue and related expenses	A	F	I	A	A	A
• Leases	A	F	I	I	I	I
• Changes in accounting policies and estimates, and errors	A		F	I	F	F
• Foreign currency transactions	A		F	I	A	I
• Accounting for income taxes	A	F	I	A	A	I
• Events after the reporting period	A		F	I	F	F
*Proficiency Levels: A = Advanced I = Intermediate F = Foundation						

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