

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK
MULTILATERAL INVESTMENT FUND

URUGUAY

**INTERNATIONAL FINANCIAL REPORTING AND AUDITING
STANDARDS**

(TC-03-04-01-3)

DONORS MEMORANDUM

~~This document was prepared by the project team consisting of Valnora Leister (LEG/OPS);~~
María Elena Nawar (MIF); Gustavo Sierra (COF/CUR); Maximiliano Marqués (RE1/SC1);
and Lynnette Asselin (RE1/SC1), Project Team Leader.

CONTENTS

EXECUTIVE SUMMARY

I.	PROJECT ELIGIBILITY	1
II.	BACKGROUND.....	1
III.	OBJECTIVES AND BASIC COMPONENTS.....	4
	A. Program objectives.....	4
	B. Basic components	4
	1. Component 1. Study and convergence toward international financial reporting standards and international auditing standards.....	5
	2. Component II. Dissemination and training.....	6
	3. Component III. Optimization of the quality of professional practice.....	7
	4. Component IV. Legal framework	8
IV.	COST, FINANCING AND SUSTAINABILITY.....	8
	A. Cost.....	8
	B. Sustainability.....	9
V.	EXECUTING UNIT AND EXECUTING MECHANISM	9
	A. Executing unit	9
	B. Execution mechanism	9
	C. Execution period	10
	D. Project preparation	10
	E. Accounting and auditing.....	10
VI.	MONITORING AND EVALUATION.....	11
VII.	PROJECT JUSTIFICATION AND RISKS	12
	A. Benefits and justification	12
	B. Beneficiaries	12
	C. Risks	13
VIII.	SOCIAL AND ENVIRONMENTAL FEASIBILITY	13
IX.	SPECIAL CONTRACTUAL CONDITIONS	13
X.	EXCEPTIONS TO BANK POLICIES AND PROCEDURES.....	14

ANNEXES

Annex I Logical framework

APPENDICES

Proposed resolution

INFORMATION AVAILABLE IN THE TECHNICAL FILES OF RE1/SC1

Execution:

Terms of reference for the project coordinator

Detailed budget

Sequencing table for project outcomes

ABBREVIATIONS

Committee	Comisión Permanente de Normas Contables Adecuadas [Standing Committee on Proper Accounting Standards]
Institute	Colegio de Contadores, Economistas y Administradores del Uruguay [Uruguayan Institute of Chartered Accountants, Economists and Financial Administrators]
IAS	International auditing standards
IASB	International Accounting Standards Board
IFAC	International Federation of Accountants
IFRS	International financial reporting standards
ROSC	Report on the Observance of Standards and Codes

INTERNATIONAL FINANCIAL REPORTING AND AUDITING STANDARDS¹

(TC-03-04-01-3)

EXECUTIVE SUMMARY

Executing agency: Colegio de Contadores, Economistas y Administradores del Uruguay [Uruguayan Institute of Chartered Accountants, Economists and Financial Administrators]

Beneficiaries: The beneficiaries are institutional and individual investors, companies and business organizations, regulatory agencies, Uruguayan professionals (individuals and firms), members of the Uruguayan Institute of Chartered Accountants, Economists and Financial Administrators, and society in general, through greater market transparency.

Financing:

MIF (Facility I) (60%):	US\$420,000
Local counterpart (40%):	US\$280,000
Total:	US\$700,000

Objectives and description: The general objective of the project is to contribute to the supply of reliable, transparent and objective financial information on the financial performance of Uruguayan businesses, that is comparable nationally and internationally.

The specific objective is to achieve the timely and continuous adoption of international financial reporting standards (IFRS) and international accounting standards (IAS) by developing processes for their proper application.

Component I. Study and convergence with IFRS and IAS. This component seeks to support Uruguay's convergence with internationally accepted standards. It will develop a baseline and an action plan for the adoption and updating of IFRS and IAS.

Component II. Dissemination and training. This component will support dissemination of the standards and training in accounting and auditing standards and the technical basis for their application. Means and mechanisms for their continuous dissemination will be designed and a training system will be implemented.

¹ Although the title "International Accounts Standards" has been changed to "International Financial Reporting Standards," the two terms will be used interchangeably in the present text because "International Accounting Standards" is the term most commonly used in Latin America.

Component III. Optimization of the quality of professional practices. This component will assist the Institute in the review and introduction of changes in professional practices in Uruguay. It will develop mechanisms for technical and ethical oversight and a continuing system of voluntary education for the profession in the Institute.

Component IV. Legal framework. This component will develop a system that will make Uruguayan standards converge permanently with IFRS and IAS. To that end, a legal framework will be developed in agreement with interest groups for the timely and regular adoption of international standards.

Execution timetable: The program will be executed in 36 months and the disbursement period will be 42 months.

Special contractual clauses: As a condition precedent to the first disbursement, the executing agency will present evidence to the Bank's satisfaction that the project coordinator has been selected.

The baseline for the project will be defined during the first six months of implementation. Consequently, the logical framework will need to be revised within 60 days after the baseline information is obtained, so that continuation of the project can be authorized.

Environmental and social review: When it reviewed the project, the Committee on Environment and Social Impact (CESI) at its meeting TRG 29-03 of 1 August 2003 had no comments to add to the environmental and social strategy that the project team prepared and included in the project design.

Exceptions to Bank policy: None.

I. PROJECT ELIGIBILITY

- 1.1 On 6 October 1993, the Donors Committee declared Uruguay eligible for all types of financing from the Multilateral Investment Fund (MIF).
- 1.2 The program qualifies for MIF financing under the Technical Cooperation Facility (Window I). The MIF is actively supporting projects whose aim is to promote the introduction and/or harmonization of accounting and auditing standards. This operation is consistent with the cluster program to promote competitiveness through international accounting and auditing standards (MIF/GN-80) which was presented to the Donors Committee in May 2002. In this group of projects, the MIF will finance programs to support efficient financial markets in the private sector, to which end it requires reliable information generated through international accounting and auditing standards.

II. BACKGROUND

- 2.1 Around the world, in light of the repercussions of the recent financial crises and the lack of good business management, international accounting and auditing standards and regulation have become a critical issue in high-level talks on market system reform.
- 2.2 The trend today in Latin America as in other parts of the world shows a preference for the adoption of international financial reporting standards (IFRS) issued by the International Accounting Standards Board (IASB). The member countries of the European Union are required to adopt them by 2005, at the latest. Another example of this trend can be found in the GAAP Convergence 2002 Survey, which summarizes the plans of 59 countries to promote and achieve convergence with IFRS by December 2002. Over 90% of those 59 countries said they intend to converge.
- 2.3 The IFRS issued by the IASB are based on principles that can be easily adopted or adapted by users to their own systems. The IASB is an independent agency with private financing that issues accounting standards that demand transparent and comparable information in financial statements. In addition, it cooperates with national agencies that issue financial reporting standards with a view to harmonizing those standards around the world. The IASB publishes its standards in a series of pronouncements known as International Financial Reporting Standards. At present, there are 41 standards in effect, many of which are in the process of being revised.
- 2.4 International auditing standards (IAS) and international auditing practice standards (IAPS) are issued by the International Federation of Accountants (IFAC), whose objective is to achieve greater uniformity in auditing practices and related services throughout the world by issuing pronouncements on a whole range of auditing

functions and promoting their acceptance. IFAC is an agency that brings together national organizations of professional accountants and accounting firms that work with companies, industries and the public sector. IFAC's mission is to develop the profession and harmonize standards around the world.

- 2.5 This is a good time for Uruguay to begin convergence with IFRS and IAS. As a result of recent experiences, there is a broad consensus among the different economic agents regarding the need to move in this direction. In the mid-1990s, Uruguay began to develop a Stock Exchange that sold private company shares. The process was interrupted when the country was hit by a crisis of financial confidence that stemmed from an episode of mismanagement of financial information by one of the main institutions that provided such information. Recently, events in two commercial banks worsened this crisis of confidence, which made the need to introduce a system to improve the quality and oversight of financial information more pressing.
- 2.6 Uruguay has been moving toward complete convergence in the acceptance and application of international standards. For example, in the public sector, on 17 December 2002, the government issued Pronouncement No. 81 on the formulation and presentation of accounting statements. This pronouncement makes it compulsory to apply the IFRS issued by IFAC in the public sector for accounting periods starting in January 2003.
- 2.7 The Uruguayan private sector uses three types of accounting standards: professional, institutional and legal. **Professional** accounting standards are the standards established in the Technical Pronouncements of the Uruguayan Institute of Chartered Accountants, Economists and Financial Administrators and they are mandatory only for the Institute's professional members. **Institutional** accounting standards are issued by certain agencies and are binding on institutions that are linked to them (for example, the Central Bank, the National Meat Board, the Ministry of Public Health). They issue very specific standards which principally refer to presentation. **Legal** accounting standards are all those established by laws, decrees and resolutions which are binding on all the commercial companies governed by Law 16,060. The executive branch is advised by the Standing Committee on Proper Accounting Standards (Standing Committee) with respect to the decrees and resolutions in question.
- 2.8 The Uruguayan Institute of Chartered Accountants, Economists and Financial Administrators is an association that groups together most of the country's professionals in the field. It has associative, academic and cultural purposes. The professional accounting standards were issued by the Institute in 1990 when IFRS Numbers 1 to 20 were declared obligatory in Uruguay, with a few exceptions that were declared optional. At that time, they were the only standards translated into Spanish. Twenty-nine international financial reporting standards have now been

issued. The auditing standards were issued in 2002 and 2003, when the 1990 standards were reformulated.

- 2.9 The Standing Committee was established by Resolution 90/991 of the Ministry of Economic Affairs and Finance, for the purpose of regulating Article 91 of Law 16,060 and complying with Resolution 768/989.¹ The committee's area of work consists of: (i) the study and definition of good accounting standards; (ii) the preparation of draft regulations; and (iii) the publication of examples. IFRS numbers 1, 2, 4, 5, 7, 8, 9, and 10 were designated by Uruguay as good accounting standards in 1991, and numbers 11, 12, 13, 16, 17, and 18 received that designation in 1993. The other IFRS are considered alternatives. Updating the standards has been slow since 1993, owing to the difficulties faced by the Standing Committee such as lack of organization, operating framework, regulations and infrastructure. However, despite these shortcomings, at the end of 2002, the Institute presented a proposal to the Standing Committee with respect to full application of IFRS. After a study by the committee, a draft was agreed upon that was submitted to the Ministry of Economic Affairs and Finance which fully endorsed the concept.
- 2.10 With regard to auditing standards, the private sector in Uruguay is governed by professional and institutional standards. The **professional** standards are composed of the pronouncements issued by the Institute. Specifically, Pronouncement No. 13 "Generally-Accepted Auditing Standards in Uruguay" determines that IAS are applicable on the professional level in Uruguay. With respect to the **institutional** standards, the Central Bank of Uruguay requires companies that borrow from the financial system to present their accounting statements audited in accordance with the standards approved by the Institute. The individuals and firms that audit companies in the financial system (banks, pension fund administrators, insurance companies, etc.) are also required to observe Pronouncement No. 13.
- 2.11 IAS are binding on the professional members of the Institute, independent auditors and auditing firms. They are also institutionally binding on auditors who work for companies in the private financial system and for commercial companies required to present audited financial statements to any institution in the financial system. In general, the professionals who issue external auditing reports on accounting statements apply IAS. However since there is no procedure to permit changes in IAS to be incorporated quickly into the local framework, some difficulties arise. There is no continuing education program to ensure that all professionals receive

¹ This Standing Committee is composed of members appointed by the executive branch, on the proposal of the following agencies: the Ministry of Economic Affairs and Finance, the National Internal Auditor's Office (whose representative chairs it), the Board of Industry of Uruguay, the National Chamber of Commerce, the Stock Exchange, the Association of Banks of Uruguay, the Uruguayan Institute of Chartered Accountants, Economists and Financial Administrators, the Faculty of Economics and Business Administration, the Uruguay Bar Association and the Uruguayan Association of Notaries.

- adequate training and there is no formal mechanism to control the quality of the work of auditors.
- 2.12 If Uruguay is to adopt and successfully apply international accounting and auditing standards, it needs to develop a sufficiently robust accounting infrastructure. That infrastructure should include: (i) a critical mass of qualified professionals trained in IFRS and IAS; and (ii) a regulatory framework that provides a mechanism to ensure the convergence and updating in due time and form of Uruguayan standards to match the standards issued by the IASB and IFAC.
- 2.13 The present project proposes to promote the adoption of IFRS and IAS so that faster progress can be made toward the convergence of Uruguayan standards with international standards and so that they can be brought up to date as existing standards are modified and new ones are added. In agreement with the Standing Committee, new mechanisms will be designed to ensure the timely adoption of national standards and their continuous updating. This will require a consensus by the institutions that sit on the Standing Committee regarding the new structure, operating regulations and draft legislation.
- 2.14 Although Uruguay is just the fourth project (after Mexico, Jamaica, and Trinidad and Tobago) in the cluster on international financial reporting and auditing standards, one of the lessons learned during preparation was the need to obtain a clear understanding of the reasons why international standards have not been adopted in the country, of how the standards will benefit the country in particular, and of the specific actions required to promote their timely and continued adoption. To identify additional lessons for the future preparation and implementation of projects, a meeting of the executing agencies of the first four countries will be held in September 2003 in Panama to share experiences. Also, during the life of the project, the lessons learned will be garnered at similar meetings, paid for by the project.

III. OBJECTIVES AND BASIC COMPONENTS

A. Program objectives

- 3.1 The general objective is to contribute to the provision of reliable, transparent and objective technical financial information on the financial performance of Uruguayan businesses, that is comparable nationally and internationally. The specific objective is to achieve the timely and continuous adoption of IFRS and IAS by developing processes for their proper application.

B. Basic components

- 3.2 The four main components in the program are: (i) study and convergence toward international financial reporting and auditing standards; (ii) dissemination and

training; (iii) optimization of the quality of professional practices; and (iv) the legal framework.

1. Component 1. Study and convergence toward international financial reporting standards and international auditing standards (MIF US\$81,300; local US\$9,700)

- 3.3 This component seeks to support Uruguay's convergence with internationally accepted standards. It will develop a baseline and an action plan for the adoption and updating of IFRS and IAS. It will also develop local capacity to ensure that in future, standards are expeditiously updated when the IASB or IFAC modify their standards or issue new ones.
- 3.4 The main activities in this component include:
- a. Performing a diagnostic study to compare local accounting and auditing standards with international standards (including the IMF questionnaire on the Observance of Standards and Codes, Review of Accounting and Auditing Practices), identifying areas where there are significant differences and the specific reasons, keeping in mind different factors such as interest groups, professionals and legal contexts, etc. The diagnostic study will provide the Institute with sufficient information to develop an action plan with a timetable for making Uruguayan standards converge with international ones, and a baseline for carrying out the activities necessary to achieve that goal. It will also determine the best way of disseminating the standards and the best means of training the professionals. Several consultants will be engaged for a total of three months to perform these activities (diagnostic study, baseline and action plan).
 - b. Developing a monitoring system to expeditiously obtain all the new exposure drafts, standards, pronouncements and guidelines issued by the IASB and IFAC, to ensure that new IFRS and IAS are incorporated into the exercise of the accounting and auditing professions. The system will permit the Institute to automatically and continuously keep abreast of and study processes related to IFRS and IAS, bring them to the attention of Uruguayan professionals so they can include them in their practice, and permanently update the action plan for convergence mentioned in the previous point. A consultant specializing in systems will be contracted for approximately one month to develop the system and the necessary software will be procured.
 - c. Conducting workshops and seminars for interest groups identified in the diagnostic study to examine the implications of the convergence process, such as groups from the business, financial, banking, public, academic and accounting sectors. They will first discuss the results of the diagnostic study and then the new exposure drafts, rules and pronouncements issued by the

IASB and IFAC. They will work participatively to select the best options for applying the standards for the sectors as a whole, thereby facilitating the process of eliminating the differences between Uruguayan and international standards.² At least five events will be held at the start of the project and additional events will be held when new IFRS and IAS are issued.

- d. Sponsoring and financing attendance by professionals at international conferences and seminars, to keep them abreast of developments and in permanent contact with the new standards issued by the IASB, to ensure an exchange of information on the process of convergence and adoption in other countries of the region, with emphasis on the difficulties encountered and the lessons learned. Approximately two events will be sponsored or attended each year during the project.

2. Component II. Dissemination and training (MIF US\$110,800; local US\$125,000)

- 3.5 This component will support the dissemination of the accounting and auditing standards and training in them and in the technical foundations for their application. Aids and mechanisms will be designed for training events.

- 3.6 The main activities include:

- a. Holding 15 events during the project that focus on the dissemination of the standards through different means, such as seminars, distance education, video conferencing and the Internet. These activities are intended for professionals, regardless of whether they are members of the Institute, professors and other stakeholders in society. An interactive space for consultations will be maintained on the Institute's web page.
- b. Defining, developing and implementing a system of distance education that promotes the permanent updating of professionals in Montevideo and in the other departments. The system will train professors in the use of distance education and will offer courses for 30 months. The pilot program will begin during the second year of the project. A consultant in e-learning will be contracted for six months and the project will pay the fees of the professors who give the courses.
- c. Promoting the necessary changes in study plans in universities³ to ensure good training for future generations of professionals. Different activities will be

² In many cases, the IFRS suggest options for their application. These options need to be studied to select the ones that are best adapted to the Uruguayan economy.

³ Currently the Universidad de la República (which sits on the Standing Committee), Universidad Católica, Universidad de Montevideo, Universidad ORT del Uruguay, and Universidad de la Empresa.

carried out with the five universities (at least two a year) to guide them in the processes of convergence with the new standards and assist them in incorporating them into the curriculum.

- d. Designing and offering a series of approximately 100 courses during the project, providing professionals with guides for application and case studies. The courses will be on the application of IFRS and IAS in general and specifically. They will be based on the needs identified in the diagnostic study to be performed under component I. Different face-to-face classes will be taught starting in the 13th month of the project at the Institute's premises in Montevideo and at the headquarters of professional associations of accountants elsewhere in the country, and other places determined during implementation.

3. Component III. Optimization of the quality of professional practice (MIF US\$59,500; local US\$25,000)

- 3.7 This component will assist the Institute in the review and introduction of changes in professional practice in Uruguay. It will develop mechanisms for technical and ethical oversight of the profession in the Institute.

- 3.8 The main activities of this component include:

- a. Defining criteria and designing a voluntary continuing education program (accreditation and certification), developing, publicizing and implementing it during the first year of the project, using the information provided by the diagnostic study. At present, Uruguay has no formal mechanism for ongoing professional development. Professionals need a system that allows them to keep up to date with all the changes in the accounting profession. A consultant specializing in training and professional development will be contracted for about 12 months to develop the program.
- b. Updating the Institute's articles of association to adapt them to the needs identified in the initial diagnostic study, harmonizing them with those of the professional associations in the interior and giving the Institute the power to act as technical supervisor of the profession. The experience of international consultants in strengthening professional bodies will be used to help design the new system for technical oversight, build consensus and obtain contributions from interested parties.
- c. Conducting a study to establish formal procedures for complying with the code of ethics, followed by a series of workshops, seminars and information to ensure its dissemination and the identification of noncompliance. One consultant will be contracted for two months to prepare the study, and the project will fund dissemination of the procedure and monitoring of the code.

4. Component IV. Legal framework (MIF US\$9,000; local US\$3,000)

- 3.9 This component will develop a system that will make Uruguayan standards converge permanently with IFRS and IAS, given the difficulties that have arisen in the past with their issue and updating. A legal framework will be developed in agreement with interest groups to define the most suitable structure for the system, to permit the timely and continuous adoption of international standards as professional, institutional and legal standards in the Uruguayan private sector.
- 3.10 The main activities to be financed in this component include:
- The conceptual design of a marketing plan and the building of a consensus on a system for adapting standards, to sensitize the players to the importance of a legal framework that promotes the effective entry into force of the reform. This activity will be performed by a firm with experience in consensus building and public information.
 - Drafting legislation which, as a result of study and experience, takes specific account of the lessons learned and the recommendations identified during the first half of the project. The Institute will prepare the draft with support from legal consultants and will present it to the Ministry of Finance for approval and submission to the executive branch. It is estimated that one month of legal consulting services will be required to draft the legislation. The Institute will be responsible for building consensus among the other stakeholders.

IV. COST, FINANCING AND SUSTAINABILITY

A. Cost

- 4.1 The program will cost an estimated US\$700,000. The MIF will provide US\$420,000 (60 percent) in nonreimbursable resources from Facility I. The balance of US\$280,000 (40 percent) will be provided by the Institute as local counterpart, with at least 50 percent in cash. The estimated budget is shown below:

Budget items	MIF	Local contribution		Total
		Cash	Kind	
Component I.- Study and convergence	81,300	9,700		91,000
Component II.- Dissemination and training	110,800	35,000	90,000	235,800
Component III.- Quality of practice	59,500	20,000	5,000	84,500
Component IV.- Legal framework	9,000	3,000		12,000
Program coordination	72,000	18,000		90,000
Administrative costs	22,500	51,300	45,000	118,800
Monitoring and evaluation	30,000			30,000
Auditing	5,000			5,000

Budget items	MIF	Local contribution		Total
		Cash	Kind	
Technical advisor and exchanges of information in the cluster	25,000			25,000
Contingencies	4,900	3,000		7,900
Total	420,000	140,000	140,000	700,000
Percentage	60%	20%	20%	100%

B. Sustainability

- 4.2 The program's objectives will be sustained by building up the Institute's capacity to provide quality services and products for the profession. The program will improve the responsiveness of those services and products to the needs of the profession, thereby increasing demand for the Institute's services and requirements. Financially, sustainability will be assured by: (i) the income earned from the Institute's dissemination and training activities (tuition, printed materials, case studies, etc.); (ii) support from other players who benefit from the results of the project; and (iii) funds from application of the technical oversight mechanisms. Activities such as development of a technical oversight system, the continuing education program, and the system for issuing standards will help to ensure that Uruguayan accounting standards will converge with IFRS and IAS over time, making them sustainable.

V. EXECUTING UNIT AND EXECUTING MECHANISM

A. Executing unit

- 5.1 The Institute, which was founded on 18 April 1893, will be the executing agency. Its purposes are associative, academic and cultural and it is administered by a nine-member council elected in accordance with its articles of association. At the end of fiscal year 2002, it had a net surplus and it is financially sustainable. The Institute's income comes from members' fees, special contributions, public and private contributions, interest earned on its funds, donations and legacies, and other resources to carry out its purposes, such as conference and seminar materials. It also has demonstrated financial management and organizational capabilities, as evidenced by the major events it has arranged, such as the Tenth Inter-American Accounting Conference in 1972 and the Twenty-fourth Inter-American Accounting Conference in November 2001 at Punta del Este, in Uruguay, attended by about 1,800 delegates and organized with a budget of more than US\$1 million.

B. Execution mechanism

- 5.2 The program will finance a full-time project coordinator, who will be responsible for administering and supervising the program. The coordinator will report to the Institute and the latter, as executing agency, will assign a project assistant and

provide the physical space and equipment necessary for the executing unit to function properly. The coordinator, assistant, accountant and secretary will have their offices within the Institute. The coordinator will report directly to the Institute's council and will be required to work with the members of the Standing Committee, such as officials from the Ministry of Economic Affairs and Finance, the National Internal Auditor's Office, the Uruguayan Board of Industry, the National Chamber of Commerce, the Stock Exchange, the Association of Uruguayan Banks, the Faculty of Economics and Business Administration, the Uruguay Bar Association and the Uruguayan Association of Notaries, technical experts from the Institute and the consultants who will help execute the program.

C. Execution period

- 5.3 The project will be executed in 36 months and the disbursement period will be 42 months. After the conditions precedent to the first disbursement have been complied with, a revolving fund of up to 10 percent of the donation will be established to procure goods and services, in accordance with Bank and MIF procedures.

D. Project preparation

- 5.4 When the project was being prepared, the Standing Committee made an express commitment to participate actively in it as a token of its firm support. Together with the Institute (which is represented on the Committee) it participated actively in designing the project.

E. Accounting and auditing

- 5.5 **Accounting.** The executing agency will maintain suitable accounting, financial, internal auditing and filing system that will permit the sources and uses of program funds to be identified. The accounting system will be organized to provide the documents needed to verify transactions and facilitate the timely preparation of financial statements and reports. The project's records will be maintained in such a way as to: (i) identify the funds received from different sources; (ii) generate the reports on project spending in accordance with a chart of accounts approved in advance by the Bank, which distinguishes between MIF contributions and contributions from other sources; and (iii) include the details necessary to identify the goods procured, the services contracted and the use of those goods and services. The executing agency will open separate bank accounts specifically to manage the MIF's contribution and the local counterpart funds. Lastly, the executing unit will process the disbursement requests and the respective supporting documentation in accordance with the Bank's disbursement procedures.
- 5.6 **Financial audits.** The Institute will prepare and present to the Bank, within 90 days after the date of the last disbursement, the final financial statements on the Bank's

contribution and the local counterpart. These financial statements will be audited by a firm of independent auditors acceptable to the Bank. The costs of the audit will be financed from the MIF's contribution, in accordance with Bank procedures.

VI. MONITORING AND EVALUATION

- 6.1 **Monitoring.** The Institute will present all the project progress reports to the Bank's Country Office in Uruguay within 30 days after the end of each semiannual period, and a final report within 30 days after the last disbursement. The reports will follow a format agreed on in advance with the Country Office and will deal with all project activities and financing and the outcomes measured in terms of the indicators and means of verification identified in the logical framework. The Country Office will use these reports to monitor progress and to prepare a project completion report within three months after the last disbursement. The project team will work closely with the Country Office on the technical issues related to project execution. Also, given the MIF's interest in this project since it forms part of a cluster, the project will benefit from the assistance of a technical advisor and a mechanism for the exchange of information with other executing agencies in the cluster, to report on lessons learned and best practices. US\$25,000 has been set aside in the budget for this purpose, which will be administered by the MIF.
- 6.2 **Evaluation.** The Bank will hire consultants to perform a midterm and a final evaluation of the program. Both evaluations will keep in mind the diagnostic study, progress measured against the action plan, and the information generated by the ROSC self-evaluation questionnaire. The final evaluation will take into account the progress identified in the formal ROSC exercise to be performed by the World Bank next year.
- 6.3 The midterm evaluation will be prepared 18 months after program startup or when 50 percent of the funds have been disbursed and will focus on measuring progress in the indicators identified in the logical framework and the recommendations of the ROSC for adapting IFRS and IAS. Based on this midterm evaluation, where necessary, the Bank's Country Office and the project team will conduct annual performance reviews to determine whether the project should continue, be suspended or cancelled.
- 6.4 A final evaluation will be performed within three months after the project is completed. For the final evaluation, an independent expert will examine the impact of the program on the application and introduction of IFRS and the extent of assistance for the reform program to adopt the international standards. The evaluation will determine the extent to which the use of interpretations, guidelines, and training will facilitate the application of IFRS, and the degree of consensus and adaptation of a suitable mechanism for the continuous emission of international standards. The executing agency will provide access to all the information and

documentation required for these evaluations. The midterm and final evaluations will be financed with MIF resources.

- 6.5 The World Bank is considering administering a ROSC next year. The ROSC self-diagnosis will be taken into account in preparing the baseline and the action plan. All these elements will form part of the basic documentation for the midterm and final evaluations, which will be financed by the MIF.
- 6.6 During the program, the Institute will supervise and evaluate the program indicators. The indicators are set out in the logical framework (Annex I) and will be used by the Bank's Country Office and the Institute to measure the overall impact and evaluate the results. The logical framework also corresponds to the MIF's Project Performance Monitoring Report (MPPMR) and will allow for a careful evaluation of the impact of the program on the beneficiaries. It will also be used to evaluate the cluster programs.

VII. PROJECT JUSTIFICATION AND RISKS

A. Benefits and justification

- 7.1 The project is in harmony with the MIF's objectives of supporting processes related to the development of regulatory frameworks, transparency of information and strengthening of financial and capital markets. It forms part of the cluster to promote competitiveness through international accounting and auditing standards. It is the fourth project seeking approval under the cluster program. It differs from the other projects that have been approved in that it proposes to develop and strengthen the structure of a system that will permit Uruguay to adopt and comply with international accounting and auditing standards in a timely manner, as the IASB issues new standards or modifications to existing ones. In light of the current process of globalization of financial information, the present project is considered highly **replicable** in Latin America, given the trend toward uniform financial reporting standards (see paragraph 2.2). **Sustainability** will come from the establishment of a new system, with a regulated structure and functions, for the issue of standards. The Institute will be strengthened by having mechanisms to control the quality of the financial statements produced by professionals and will have better capacity to sell training services, which will contribute to the financial sustainability of the project.

B. Beneficiaries

- 7.2 The project's beneficiaries will be: (i) institutional and individual investors, who will have reliable information on companies of interest to them and other users of financial information; (ii) businesses and business organizations, because the preparation of their financial statements on the basis of internationally-accepted

standards will facilitate decision-making and their participation in international trade; (iii) regulatory agencies, which will have uniform information on the different sectors, facilitating their oversight activities; (iv) Uruguayan professionals (individuals and firms), members of the Uruguayan Institute of Chartered Accountants, Economists and Financial Administrators and nonmembers, because they will be participants in an activity that will be relevant for the country's economy; and (v) society in general, through greater market transparency.

C. Risks

- 7.3 The main risk, as is evident from past experience, is that despite the keen enthusiasm, no formal structures or mechanisms exist to ensure the study, emission and timely implementation of IFRS and IAS, since there are no unified pressure groups that advocate the continuous revision of international standards. To mitigate this risk, the project will develop a system for the permanent issue of the standards and will prepare a legal framework agreed on by the different interest groups. In meetings with the members of the Standing Committee and representatives of the Ministry of Economic Affairs and Finance, they expressed their full support for this concept.

VIII. SOCIAL AND ENVIRONMENTAL FEASIBILITY

- 8.1 The Committee on Environment and Social Impact (CESI) reviewed and approved this project without comment on 1 August 2003. Given the nature of the program, there will be no direct or indirect negative social or environmental impact. In social terms, the project will broaden access to training in the accounting profession for a universe of accountants in less favored geographic areas and for people from different socioeconomic strata.

IX. SPECIAL CONTRACTUAL CONDITIONS

- 9.1 As a condition precedent to the first disbursement, the Institute will demonstrate, to the Bank's satisfaction, that the project coordinator has been selected. The terms of reference are available in the files of the State and Civil Society Programs Division of Region 1.
- 9.2 The baseline will be defined during the first six months of the project. Consequently, the logical framework will need to be revised within 60 days after the baseline information is obtained, so that continuation of the project can be authorized.

X. EXCEPTIONS TO BANK POLICIES AND PROCEDURES

10.1 No exceptions to Bank policies are anticipated.

LOGICAL FRAMEWORK
INTERNATIONAL FINANCIAL REPORTING AND AUDITING STANDARDS
URUGUAY

TC-03-04-01-3

OBJECTIVES AND OUTCOMES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
Objective			
To contribute to the provision of reliable, transparent and objective technical financial information on the performance of Uruguayan businesses, that is comparable nationally and internationally.	<ul style="list-style-type: none"> • 50% increase in the number of firms that prepare their audited financial statements following the criteria of the IFRS and IAS that have been adopted. • Increase in user satisfaction with the quality and quantity of financial statements of 15% in year two and 50% in year three. 	<ul style="list-style-type: none"> • Surveys • Final evaluation • ROSC 	
Purpose			
The purpose is to achieve the timely and continuous adoption of the IFRS and IAS through the development of processes for their adequate application.	<ul style="list-style-type: none"> • Increase to 80% of the IFRS that are legally accepted in Uruguay out of the total in effect internationally, by the end of the project. • Increase to 90% of the IAS that are legally accepted in Uruguay out of the total in effect internationally, by the end of the project. • System for the permanent issue of standards in operation. • 50% of professionals trained by the program apply the IFRS and IAS that have been issued. 	<ul style="list-style-type: none"> • Surveys as part of the diagnostic study under component 1 • Other surveys • Legal standards • Institute reports • ROSC 	<ul style="list-style-type: none"> • Political and social consensus on the need to apply IFRS and IAS
Components			
I. <i>Study and convergence with international standards</i>	<ul style="list-style-type: none"> • Action plan approved by the Institute in year one and implemented by the end of the program. • Increase to 80% in the ratio of IFRS and IAS accepted through pronouncements by the Institute out of all IFRS and IAS issued. 	<ul style="list-style-type: none"> • Baseline report • Action plan • Institute reports 	<ul style="list-style-type: none"> • Most IFRS and IAS issued are applicable in Uruguay. • There is interest in Uruguay in applying IFRS and IAS.

OBJECTIVES AND OUTCOMES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
II. <i>Dissemination and training</i>	<ul style="list-style-type: none"> Continuing education plan approved by the Institute within 12 months and implemented by the end of the program. 250 users participate in the different stages of training in IFRS and IAS by the end of the project. 1,750 chartered accountants in Montevideo and 250 in the rest of the country participate in the different stages of training in IFRS and IAS by the end of the project. Uruguayan standards have been replaced by IFRS and IAS in university study plans. 	<ul style="list-style-type: none"> Continuing education plan Institute reports University reports Database 	<ul style="list-style-type: none"> There is interest by users and professionals in receiving training and in the training systems.
III. <i>Optimization of the quality of professional practice</i>	<ul style="list-style-type: none"> 50% of Institute members participate in the certification program. 25% of Institute members are involved in voluntary continuing education by the end of the project. Mechanism for technical oversight approved by the Institute within 12 months and implemented by the end of the project. Code of ethics revised and reformed. 	<ul style="list-style-type: none"> Institute report Surveys on satisfaction Code of ethics Document on the mechanism for technical oversight 	<ul style="list-style-type: none"> A majority supports technical and ethical oversight of the profession, through a flexible project tailored in time to the situation in Uruguay.
IV. <i>Legal framework</i>	<ul style="list-style-type: none"> 75% of agreements signed with the interest groups identified. Draft legislation prepared and agreed upon with interest groups (Standing Committee, etc.) within 24 months and presented to the competent authority by the end of the project. 	<ul style="list-style-type: none"> Database Draft legislation 	<ul style="list-style-type: none"> There continues to be a consensus on a flexible legal framework.

OBJECTIVES AND OUTCOMES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
ACTIVITIES			
1. <i>Study and convergence with international standards</i> 1.1 Diagnostic study 1.2 Monitoring system 1.3 IFRS and IAS 1.4 Equipment and <i>software</i>	<ul style="list-style-type: none"> • Within the first six months of the project • Throughout the project • Throughout the project • By the end of year one 		
2. <i>Dissemination and training</i> 2.1 Dissemination 2.2 Training	<ul style="list-style-type: none"> • Throughout the project • Distance education system by the end of year two • Exchange with academic institutions twice a year, with five universities • Design of training programs. 75% by the end of year two, 100% by the end of the project • Courses. 20% in year one, 60% in year two and 100% by the end of the project 		
3. <i>Optimization of the quality of professional practice</i> 3.1 Accreditation/certification program 3.2 Technical oversight program 3.3 Ethics program	<ul style="list-style-type: none"> • By the end of year one • Design of the mechanism by the 18th month and startup by the end of the project • Establishment of formal procedures by the end of year one and startup by the end of the project 		
4. <i>Legal framework</i> 4.1 Design of the system for issuing standards 4.2 Draft legislation	<ul style="list-style-type: none"> • By the end of year two • By the end of the project 		