

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK
MULTILATERAL INVESTMENT FUND
NOT FOR PUBLIC USE

COSTA RICA

IMPROVING THE QUALITY OF FINANCIAL REPORTING

(CR-M1001)

DONORS MEMORANDUM

This document was prepared by the project team consisting of Betsy Murray (COF/CCR); Lorena Mejicanos (MIF); María Elena Nawar (MIF); María Cristina Landazuri-Levey (LEG); and José Justiniano (RE2/FI2), Project Team Leader. Michell Maxwell and Yolanda Galaz (RE2/FI2) assisted with document production.

CONTENTS

EXECUTIVE SUMMARY

I.	EXECUTIVE SUMMARY	1
II.	BACKGROUND AND RATIONALE	2
	A. Background	2
	B. The accounting profession in Costa Rica.....	3
	C. Bank strategy and rationale	4
III.	PROJECT OBJECTIVES AND COMPONENTS.....	4
	A. Objectives and description.....	4
	B. Components.....	5
	1. Component I: Adoption of international financial reporting and auditing standards.....	5
	2. Component II: Training and quality control in the accounting profession.....	5
	3. Component III: Oversight of the use of IAS/IFRS and ISA	7
IV.	COST AND FINANCING	8
	A. Cost and financing	8
	B. Sustainability	8
V.	EXECUTING AGENCY AND EXECUTION MECHANISM	9
	A. Executing agency	9
	B. Execution mechanism	9
	C. Project readiness.....	9
	D. Execution periods and disbursement schedule	9
VI.	MONITORING AND EVALUATION	10
	A. Monitoring.....	10
	B. Evaluation.....	10
VII.	PROGRAM BENEFITS AND RISKS	10
	A. Benefits	10
	B. Risks	11
VIII.	SOCIAL AND ENVIRONMENTAL REVIEW	11

ANNEXES

Annex I	Logical framework
Annex II	Detailed budget
Annex III	MIF projects in the sector in Costa Rica

APPENDICES

Proposed resolution

INFORMATION AVAILABLE IN THE RE2/FI2 TECHNICAL FILES

PREPARATION:

Annex IV MIF Project Performance Monitoring Report (MPPMR)

EXECUTION:

Terms of reference for the project coordinator

ABBREVIATIONS

CAFTA	Central American Free Trade Agreement
CCP	Colegio de Contadores Privados de Costa Rica [Costa Rican Association of Private Accountants]
CCPA	Colegio de Contadores Públicos de Costa Rica [Costa Rican Association of Public Accountants]
CESI	Committee on Environment and Social Impact
CISA	Certified Information Systems Auditor
CPA	Certified public accountant
GAAP	Generally Accepted Accounting Principles
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
ISA	International Standards on Auditing
IT	Information technology
MIF	Multilateral Investment Fund
PCR	Project completion report
PPMR	Project Performance Monitoring Report
PPP	Puebla-Panama Plan

IMPROVING THE QUALITY OF FINANCIAL REPORTING

(CR-M1001)

I. EXECUTIVE SUMMARY

Executing agency:	Costa Rican Association of Public Accountants (CCPA)	
Beneficiaries:	Accountants, businesses, investors, regulators, and users of financial information.	
Financing:	MIF:	US\$435,000
	Local:	US\$192,000
	Total:	US\$627,000
Objectives:	The general objective of the project is to help improve the business and investment climate as well as boost the efficiency of the financial market. The specific objective is to raise the quality of businesses' financial reporting through the application of international financial reporting standards (IFRS) and international standards on auditing (ISA) so that it is high-quality, more transparent, objective, and comparable.	
Description:	Component I will help public and private entities prepare a consensus-based action plan to define a timeline for adopting and complying with the standards. Component II will assist with training and with the implementation of a quality control system for the accounting profession. Component III will oversee the application of the IFRS and ISA.	
Environmental and social review:	The Committee on Environment and Social Impact reviewed and approved the project without comment on 24 June 2004 (CESI 26-04).	
Special contractual conditions:	As a condition precedent to the first disbursement, the executing agency must submit evidence that a project coordinator was hired. A special condition for Component II is the signing of a coordination agreement in the terms described in paragraph 5.3. The disbursement for activity (g) under Component II is contingent upon there being a commitment from the state universities as described in paragraph 5.3.	

Coordination with other agencies:	The World Bank plans to conduct a diagnostic study on the adoption of and compliance with the IFRS and ISA, the Report on the Observance of Standards and Codes (ROSC), for Central America. The project evaluations will take into account the findings of that diagnostic study.
Exceptions to Bank policies:	None.

II. BACKGROUND AND RATIONALE

A. Background

- 2.1 Good financial information provides businesses with an effective tool for enhancing the competitiveness of their operations. The availability of reliable financial statements can help to lower capital costs, increase investment potential, and facilitate access to capital markets. For financial statements to be up to par, the best accounting practices and appropriate international standards must be used in preparing them. The present trend seen around the world suggests a preference for adopting international financial reporting standards (IFRS) and international standards on auditing (ISA).¹ It should be underscored that the information technology sector is very important in Costa Rica, and requires a solid financial base to compete in international markets.
- 2.2 In Costa Rica, Law 1038 of 19 August 1947 bestows the responsibility for promoting progress in accounting science and looking after the advancement of the profession in all its facets on the Association of Public Accountants (CCPA). Based on that law, the CCPA resolved on 27 August 2001 to adopt international accounting standards (IAS) in order to have a comprehensive, coherent, and logical approach to accounting regulation.
- 2.3 Despite the passage of that resolution, the following problems are present in Costa Rica: (1) compliance with the IAS is limited to transnationals, banks, and large local businesses; (2) application has not been consistent or comprehensive – even though the IAS have been adopted in Costa Rica, they have been applied in stages and by very few business sectors; (3) many accounting professionals, principally at small and medium-sized consulting firms, and university instructors and students of accounting are unfamiliar with the IAS and IFRS; (4) training on these standards is irregular and of limited scope; (5) there is a certain resistance to changing to the new rules owing to problems of cost; (6) some businesses still do not value

¹ The current set of standards promoted by the International Accounting Standards Board (IASB) consists of a mix of IAS and IFRS. All the IAS and IFRS are envisaged to be mutually compatible after 2006.

financial reporting as a management tool; and (7) the financial regulatory agencies issue their standards without coordinating with the CCPA and without having broad knowledge of the international rules.

- 2.4 The primary reason these problems exist is because the importance of this issue was not factored in from the start and because the resolution did not set out an action plan for applying the new rules. As a result: (a) financial reporting in Costa Rica is not very transparent; (b) there are considerable differences in knowledge amongst graduates of different universities; (c) accountants have no system of professional quality control based on international standards; (d) the CCPA authorizes professional entry but does not control the quality; and (e) although there are new requirements for computer-assisted auditing, the corresponding tools are not being used.
- 2.5 Costa Rica needs to have better financial information available because: (i) the markets demand corporate social responsibility; (ii) it would help to boost the country's competitiveness and enhance its credibility; (iii) the Central American Free Trade Agreement (CAFTA) requires quality control of professional services; and (iv) there is a need for greater direct investment, both domestic and foreign, and greater access to international capital markets. To address these issues, the CCPA needs MIF support in the following areas: providing for the application of the IAS/IFRS so as to optimize businesses' financial reporting; informing medium-sized businesses about the importance of good reporting to gain better access to credit; helping accountants to update their knowledge about IAS/IFRS and ISA; training instructors to train practitioners, professors, and university students in the new standards and other accounting issues; and introducing a quality control system with auditing best practices to ensure effective compliance with and application of these standards.
- 2.6 There is currently consensus among the public sector (Central Bank, banking and securities superintendencies), universities, and the private sector (banks, businesses) that the quality of financial reporting needs to be brought up to the level of the developed countries. Doing so, however, is only possible if there is sufficient knowledge about the IAS/IFRS and ISA and they are applied effectively. Toward that end, the CCPA, the Association of Private Accountants, the banking and securities superintendencies, the Comptroller General of the Republic, the banks, and several universities have all agreed to support execution of this project.

B. The accounting profession in Costa Rica

- 2.7 There are two professional associations in Costa Rica: the Association of Private Accountants (CCP) and the Association of Public Accountants (CCPA). The CCP has 17,000 members, including bookkeepers, secondary school graduates, and accountants who work as bookkeepers or financial statement preparers. The CCPA is a nonprofit entity created in 1947 for the purpose of regulating, organizing,

leading, and guiding the public accounting profession. In May 2004 it had 5,049 members. Of the 4,500 active members, 3,000 freely practice their profession. There are 117 registered auditing firms in the CCPA, of which 20 are affiliates of international firms and 97 are local. The difference between the two associations is that the members of the CCPA are responsible for regulating and auditing financial statements, while CCP members may only prepare them.

C. Bank strategy and rationale

- 2.8 The project is in keeping with the Bank's strategy for Costa Rica's financial sector. There is broad justification because it aims to promote the adoption of the IFRS and ISA so that the financial information flowing from Costa Rican businesses is high-quality, transparent, objective, reliable, and comparable. This project is expected to have a major indirect impact on increasing foreign investment in the country because these standards afford the conditions necessary for enhancing businesses' competitiveness and their effective operation.
- 2.9 The proposed project qualifies for MIF financing under Window I, its Technical Cooperation Facility, and is consistent with the objectives of the cluster entitled "Supporting competitiveness through international accounting and auditing Standards" (MIF/GN-80), presented to the Donors Committee in May 2002. In this project cluster, the MIF is financing programs that support efficient private-sector financial markets, which require reliable information generated using international accounting standards.
- 2.10 The project would form part of the technical cooperation program for the financial sector under the facilitating trade initiative of the Puebla-Panama Plan (PPP) countries. The monetary and financial authorities of the PPP countries are giving high priority to upgrading and increasing the transparency of businesses' financial reporting. Under this PPP initiative, the MIF has already approved two projects involving accounting and auditing standards for Mexico and Honduras, and a similar operation is being prepared for Panama.

III. PROJECT OBJECTIVES AND COMPONENTS

A. Objectives and description

- 3.1 The general objective of the project is to help improve the business and investment climate as well as to boost the efficiency of the financial market. The specific objective is to raise the quality of businesses' financial reporting through the application of international financial reporting and auditing standards so that reported information is high-quality, more transparent, objective, and comparable.

B. Components

1. Component I: Adoption and dissemination of international financial reporting and auditing standards (MIF: US\$101,000; Local: US\$18,000)

3.2 This component will finance the activities necessary for adopting the IAS/IFRS, through an action plan, arrived at by consensus between the public and private sectors, that lays out a timeline for adopting and complying with these standards. It will also support the creation of a methodology for setting sector standards; the formulation of interpretations, guidelines, and best practices for the continued application of IAS/IFRS and ISA; and the dissemination of standards to the public, users of financial information, and stakeholders, especially small and medium-sized enterprises. It will also help improve procedures and practical guides for applying standards. The CCPA currently has a consulting and development unit; this unit needs to be strengthened by expanding its permanent external consulting through contracts that enable it to readily provide accurate and timely answers when professionals bring their queries directly to the CCPA.

3.3 The component's principal activities include:

- a. Developing an action plan that includes a timeline for adopting international standards, a baseline, and the steps necessary for success.
- b. Creating a methodology for preparing sector-specific accounting standards currently not covered by IAS but which the country needs.
- c. Strengthening the consulting department so it can produce specific interpretations and create precedents by responding to inquiries and questions about standards on a section of the website.
- d. Holding seminars to disseminate the standards to users of financial information and to the public, especially small and medium-sized enterprises, through chambers of commerce, federations, and trade associations. Also included will be prosecutors and other members of the Judiciary who investigate cases of financial fraud.

3.4 Consultants will be engaged for the action plan, for preparing the methodology for sector standards, and for the other activities.

2. Component II: Training and quality control in the accounting profession (MIF: US\$220,160; Local: US\$67,040)

3.5 This component will finance a training plan and technical assistance for implementing a quality control program for the accounting profession. The recent business scandals around the world reflect the weaknesses of peer review as quality control at accounting firms. This is why a new model needs to be instituted in

which accounting and auditing firms are not policing themselves. The quality control model must protect the public interest and the trust of users and at the same time reinforce the security assurances for accounting and auditing firms. An in-depth analysis will be done of the desired methodologies for an efficient process for reviewing the quality of accounting firms. Standards will be established regarding ethics, independence, objectivity, integrity of the accountant, and other rules regarding the preparation of auditing reports; auditing firms will be inspected with regard to working papers and other documents relating to the auditing report; investigations and disciplinary proceedings will be conducted and the appropriate sanctions imposed.

3.6 The component's principal activities include:

- a. Holding three workshops to train 36 instructors who will give courses and workshops to the CCPA, the CCP, the public sector, the financial sector, and universities during the first year of project execution. The following eligibility criteria were established for selecting the instructors: five years' experience teaching accounting or auditing, five years' experience with external audits, experience with designing communication or dissemination tools, three years of experience in applying the standards currently in effect in Costa Rica and in internal monitoring. There will be an open invitation to apply, and instructors will be selected by a committee composed of representatives of the CCPA, the CCP, the universities, and the banking and/or securities superintendencies. The instructors will establish the criteria for the profile of participants in the IAS/IFRS and ISA workshops and the continuing education courses.
- b. Giving 96 workshops on IAS/IFRS and ISA, to train 2,800 accountants, aimed at financial statement preparers and auditors, especially those at accounting firms outside the country's capital. Equal opportunity to participate will be ensured, and the relevant statistical information gathered.
- c. Preparing practical guides for producers and users of financial information, especially medium-sized enterprises in and outside of San José.
- d. Implementing a continuing education program for professional development. Seventeen workshops will be held annually to train 500 professionals in the first year, 500 in the second year, and 500 in the third year of the program. This program will enable at least 800 accountants to be certified.
- e. Devising a quality control system and training professionals in this area. An evaluation in this regard will determine who will be responsible for the firm's quality control; for communicating policies and procedures to personnel; for documenting the standards, policies, procedures, and compliance therewith; and for standardizing the work papers based on best practices and review procedures.

- f. Incorporating computer-assisted auditing techniques and promoting CISA (Certified Information Systems Auditor) certification;
 - g. Updating the accounting courses taught at the public universities and proposing a draft curriculum for consideration by private universities.
- 3.7 Under this component, consultants or a specialized consulting firm will be hired to carry out these activities, and information technology to be used in this and the other components will be purchased.

3. Component III: Oversight of the use of IAS/IFRS and ISA (MIF: US\$50,000)

- 3.8 The aim of this component is to assess the results of applying the standards and to strengthen the oversight and sanction-wielding capacity of the CCPA. Supervising due compliance necessitates establishing procedures for professional conduct, defining the auditor's responsibilities in case of fraud, designing and disseminating disciplinary measures and sanctions, and creating action indicators and a methodology for evaluating the auditor. It will also be necessary to introduce new auditing tools that make it possible to detect possible fraud or illegal business activities and lessen the risks for accountants and auditors when there is misleading financial reporting. The CCPA and the CCP have an Inspection Department within their organizational structure. The sanction procedures for violations of the professional code of ethics or for the use of bad auditing practices were established by regulation. There is a Court of Honor appointed by the General Assembly, and the proceedings are directed by a body appointed by the Board of Directors to guarantee due process. The Costa Rican banking and securities superintendencies have recommended that the Inspection Department be strengthened through this project.
- 3.9 The CCPA has presented an annual work plan that includes: reviewing complaints (regarding audits, certifications, ethics) and ex officio cases, conducting field studies to verify the quality of the work of public accountants who work independently, examining rules and current procedures and verifying compliance therewith, participating in the monitoring of university public accounting programs, training those who work for the Inspection Department, ensuring compliance with resolutions issued by the Board of Directors and the Inspection Commission, etc.
- 3.10 The component's principal activities include:
- a. Reviewing audited accounting statements of the principal businesses in Costa Rica, making it possible to create a permanent review model for the future.
 - b. Preparing a comparative study of the professional code of ethics of other countries with a good international image.

- c. Defining standards of professional conduct.
 - d. Designing and adopting a methodology for professional evaluation.
- 3.11 To carry out these activities, consultants or a specialized consulting firm will be hired, and the computer equipment purchased under Component II will be used.

IV. COST AND FINANCING

A. Cost and financing

- 4.1 The cost of the program is estimated at US\$627,000. The MIF will contribute US\$435,000 (67%) in nonreimbursable resources from Window I. The balance of US\$192,000 (33%) will come from local counterpart resources, of which 50% is to be in cash. The estimated project budget is as follows:

Budget Items (in US\$)	MIF	Local	Total
Component I: Adoption and dissemination of the IFRS and ISA	101,000	18,000	119,000
Component II: Training and quality control	220,160	67,040	287,200
Component III: Oversight of the use of IFRS and ISA	50,000		50,000
Program coordination		54,000	54,000
Administrative expenses		52,960	52,960
Monitoring and evaluation	27,000		27,000
Audits	10,000		10,000
Contingencies	11,840		11,840
SUBTOTAL	420,000	192,000	612,000
Percentage (%)	69	31	
Cluster activities ²	15,000		15,000
TOTAL	435,000	192,000	627,000

B. Sustainability

- 4.2 The program objectives will be sustained by ensuring that the ability of the Association of Public Accountants to offer quality services and products to the profession is strengthened. Financial sustainability will derive from the resources obtained from the dissemination and training activities that the CCPA will offer to its members (enrolment fees, issuance of standards, continuing education program, certification, printed materials, etc.).

² The US\$15,000 for “cluster activities” will be used by the Bank for the purpose of carrying out cluster-related activities. This amount will be deducted from the amount of the contribution on the date of entry into force of the agreement for this operation, without the need for a disbursement request from the beneficiary.

V. EXECUTING AGENCY AND EXECUTION MECHANISM

A. Executing agency

- 5.1 The Costa Rican Association of Public Accountants will be the executing agency for the project. The CCPA will answer to the Bank with regard to meeting the project objectives and handling MIF funds and counterpart resources. The CCPA is financially sustainable. Most of its income derives from membership dues, new members joining, seminars and courses that it gives, and the sale of stamps. The CCPA owns a modern building and has the institutional and professional capacity to run this program.

B. Execution mechanism

- 5.2 For execution, a project coordinator will be hired with local counterpart resources. The Association of Private Accountants will also participate in executing Component II through a coordination agreement.

C. Project readiness

- 5.3 As a condition precedent to the first disbursement, the executing agency must submit evidence that the project coordinator has been hired. A special condition for the disbursement of resources for Component II is the signing of the coordination agreement between the CCPA and the Association of Private Accountants to: (1) encourage their members to participate in the training workshops; (2) provide the project's executing agency with premises where the courses can be given; (3) work together with the CCPA in the coordination of training activities. A special condition for the updating of curricula will be the receipt of a written commitment from the public universities to participate in that activity and to update their academic programs.
- 5.4 The project is ready to be implemented. The Bank has assisted the CCPA in preparing the terms of reference and the eligibility criteria for selecting the project coordinator and the consultants.

D. Execution periods and disbursement schedule

- 5.5 The execution and disbursement periods are expected to be thirty-six (36) and forty-two (42) months, respectively. A revolving fund will be set up in the amount of 10% of the MIF contribution, which will be disbursed to and administered in a separate account. The executing agency will submit semiannual financial statements for the revolving fund to the Bank's Country Office in Costa Rica. The disbursements of the grant funds, the procurement of goods, and the contracting of consulting services will be done in accordance with the procedures of the Bank and of the MIF.

- 5.6 The executing agency is also to prepare and submit to the Bank, within 90 days after the date of the last disbursement, the final financial statements relating to the MIF contribution and the local counterpart funds. These financial statements will be audited by a firm of independent external auditors approved by the Bank.

VI. MONITORING AND EVALUATION

A. Monitoring

- 6.1 Project execution will be supervised by the Bank's Country Office in Costa Rica. To facilitate this supervision, the executing unit will prepare a semiannual progress report, based on the objectives and indicators in the logical framework and in a format acceptable to the Bank, within 30 days after each six-month period ends. It will also prepare a final project report, to be submitted to the Bank 30 days before the date of the last disbursement.
- 6.2 The executing unit will provide the Country Office with copies of all the reports and documents prepared by the consultants contracted to execute the project. This information will enable the Country Office to monitor the project during the six-month periods and will also serve to substantiate the disbursement requests.
- 6.3 The MIF will use the resources under the "Cluster activities" item in the cost table to hire a technical advisor to help the executing units for these projects compile data and hold cluster-related events.

B. Evaluation

- 6.4 The Bank will hire individual consultants to perform a project evaluation in month 20, or when 30% of the MIF resources have been disbursed, and a final evaluation three months after the project concludes and prior to final disbursement. The evaluations will detail: (i) the extent to which activities have been completed; (ii) whether the objectives and indicators described in the logical framework have been met; and (iii) the performance of the executing agency. The World Bank plans to conduct a diagnostic study of adoption and compliance with the IAS/IFRS and ISA, the Report on the Observance of Standards and Codes (ROSC), for the Central American region. The project evaluations will take into account the findings of that diagnostic study.

VII. PROGRAM BENEFITS AND RISKS

A. Benefits

- 7.1 The project's additionality lies in the MIF's contribution to achieving higher-quality, transparent, objective, reliable, and comparable financial

information about businesses' economic activities. This is extremely important for Costa Rica, which is aspiring to improve its business climate, increase the flow of foreign direct investment, and broaden access to international capital markets. It will also make it possible to raise the level of the accounting profession so that it can be competitive internationally.

B. Risks

- 7.2 One risk of the operation would be businesses' resistance to modifying their financial statements owing to reasons of cost. This risk is mitigated by the fact that the market demands better financial information so that businesses can be more competitive and because of CAFTA. Another risk might be the resistance of some professionals to changes in standards. Programs to raise awareness and disseminate the virtues that adopting the new rules means for improving professional competency would mitigate this risk. Efforts will be made to ensure the project's continuity and sustainability after the execution period. Given that the CCPA is the governing body when it comes to the application of accounting rules, Law 1038 will enable it to issue pronouncements on mandatory adherence to standards, so the risks would be largely mitigated.

VIII. SOCIAL AND ENVIRONMENTAL REVIEW

- 8.1 The Committee on Environment and Social Impact reviewed and approved the project without comment on 24 June 2004 (CESI 26-04). Owing to its nature, the project has no direct or indirect negative environmental or social impacts.

COSTA RICA
IMPROVING THE QUALITY OF FINANCIAL REPORTING (CR-M1001)
LOGICAL FRAMEWORK

NARRATIVE SUMMARY OF OBJECTIVES	INDICATORS	MEANS OF VERIFICACION	ASSUMPTIONS
GOAL			
The general objective is to help improve the business and investment climate as well as to boost the efficiency of the financial market.	<p>Three years after the project has concluded:</p> <ul style="list-style-type: none"> 15% increase in private investment. Private businesses increase their access to credit by 20%. <p>A. (Baseline needed)</p>	<ul style="list-style-type: none"> Ex post evaluation Annual reports from the banking and securities superintendencies 	<p>International markets demand better financial reporting.</p> <p>Private-sector businesses are willing to make progress toward transparency and improvement of financial reporting.</p>
PURPOSE			
To achieve complete and up-to-date application of international financial reporting and auditing standards so that accounting information on businesses' performance is high-quality, more transparent, objective, and comparable.	<ul style="list-style-type: none"> By month 36 the accounting and auditing standards that Costa Rica uses are 100% convergent with the IAS/IFRS and ISA. By month 20, 100% of the IFRS and ISA are applied by the financial sector. By month 20, 100% of publicly traded businesses prepare their audited financial statements in accordance with adopted IFRS and ISA criteria. 	<ul style="list-style-type: none"> Surveys CCPA and CCP reports Reports from the banking and securities superintendencies 	The Government of Costa Rica, the banking and securities superintendencies, and the universities are in agreement with the Association of Public Accountants and demand that the IFRS and the ISA be applied.
COMPONENTS			
I. International Financial Reporting Standards (IFRS) and International Standards on Auditing (ISA) applied	<ul style="list-style-type: none"> By month 20, 100% of the CPAs practicing the profession in the regulated system have applied IFRS and ISA. By the end of the project, the action plan has been implemented. 	<ul style="list-style-type: none"> Standards issued and published by the CCPA CCPA database Action plan Progress report 	National and international users of financial information recognize the Association of Certified Public Accountants (CCPA) as legally authorized to issue accounting standards.

NARRATIVE SUMMARY OF OBJECTIVES	INDICATORS	MEANS OF VERIFICACION	ASSUMPTIONS
	<ul style="list-style-type: none"> By month 36, at least 3,000 CPAs have applied IFRS and ISA in Costa Rica. 	<ul style="list-style-type: none"> Evaluations PPMR PCR 	In Costa Rica the IFRS have priority over the US GAAP.
II. Training and quality control of the accounting profession implemented.	<ul style="list-style-type: none"> 70% of teachers in university accounting degree programs have been trained in IFRS and ISA using the appropriate materials. By month 20, 50% of universities with CPA training programs have incorporated IFRS and ISA into their curricula. By month 36, 100% of universities have incorporated IFRS and ISA into their curricula. 40% of practicing accountants are certified by the end of the program. 	<ul style="list-style-type: none"> Enrolment and training records Course syllabi CCPA accreditation report CCPA registry of certifications 	<p>There is interest among Costa Rican accountants in becoming certified so as to broaden their professional horizons and enable the services offered by the accounting and auditing profession to be competitive internationally.</p> <p>Universities are interested in accrediting their curricula in order to raise the professional level of their students.</p>
III. Oversight of the use of IFRS and ISA performed.	<ul style="list-style-type: none"> Audited financial statements of 20 publicly traded companies, 16 banks, 2 insurance companies, and 8 pension funds reviewed in order to monitor compliance. By month 36, 60% of nonfinancial medium-sized businesses have applied the IFRS. 80% of private accounting firms have used IFRS with their clientele By month 36, 105 small and medium-sized auditing firms adopt ISA. <p>Inputs</p>	<p>Reports from the CCPA's and the CCP's inspection commissions</p> <p>Audits</p>	No new legal impediments arise that hinder oversight of the quality of auditing firms' work.

NARRATIVE SUMMARY OF OBJECTIVES	INDICATORS	MEANS OF VERIFICACION	ASSUMPTIONS
ACTIVITIES			
Component I			
1.1 Implement action plan for the proper application of the IFRS 1.2 Devise method for developing sector standards 1.3 Strengthen the consulting department 1.4 Hold dissemination events for medium-sized businesses, universities, and the financial and public sectors.	Action plan for applying the IFRS developed by month 8. Methodology for sector standards devised by month 20. Web page for answering queries enhanced in the second year. IFRS information campaign run in the first year (100% of new IFRS disseminated to large and medium-sized businesses).	<ul style="list-style-type: none"> Budget 	
Component II			
2.1 Prepare and hold workshops to train trainers. 2.2 Prepare and hold training workshops. At least 30% of these held in cities outside the capital. 2.3 Implement a continuing education and certification program. 2.4 Review university curricula 2.5 Create quality control systems 2.6 Implement computer-assisted auditing and quality control methods.	<ul style="list-style-type: none"> 3 instructor workshops for 12 persons each given in year 1. 96 workshops held, with 2,800 accountants trained in IFRS in the country by month 36. Continuing education and certification program implemented by month 20 and 800 persons certified. Curricula reviewed in the first year. System implemented by month 36. Computer-assisted and quality control methods implemented by month 20. 		

NARRATIVE SUMMARY OF OBJECTIVES	INDICATORS	MEANS OF VERIFICACION	ASSUMPTIONS
Component III			
<p>3.1 Review audited financial statements of the country's principal businesses.</p> <p>3.2 Prepare a comparative study of the codes of ethics of other countries.</p> <p>3.3 Define standards of professional conduct.</p> <p>3.4 Design and adopt a professional evaluation methodology.</p> <p>3.5 Identify indicators for measuring professional performance.</p>	<ul style="list-style-type: none"> • Statements reviewed by the Inspection Commission with the help of consultants by month 36 • Code of ethics updated by month 30. • Standards defined with the help of legal counsel by month 30. • Methodology adopted by the Inspection Commission with the help of a consultant. • Specialized consulting in performance evaluation by year 1. 	<p>50% of businesses that are not publicly traded, whether large or medium-sized, prepare their audited financial statements in accordance with adopted IAS/IFRS and ISA criteria.</p>	

Costa Rica "Improving the quality of financial reporting"
CR-M1001
Detailed Budget in US\$

Account	Components	Details	N°	Unit Cost	Total	MIF	CCPA	
						70%	In cash	In kind
Component 1					\$119,000	\$101,000	\$ 16,000	\$ 2,000
1.1	Action plan				\$ 20,000	\$ 20,000	\$ -	\$ -
1.1.1	Baseline study	Consultant	1	\$ 20,000	\$ 20,000	\$ 20,000		
1.2	Methodology for sector standards	Consultant	2	\$20,000	\$ 40,000	\$ 30,000	\$ 10,000	
1.3	IFRS and ISA guidelines and best practices				\$ 26,000	\$ 26,000	\$ -	\$ -
1.3.1	Conducting studies				\$ 10,000	\$ 10,000		
1.3.2	Preparation of interpretation guides				\$ 6,000	\$ 6,000		
1.3.3	Workshops and lectures		10	\$ 1,000	\$ 10,000	\$ 10,000		
1.4	Dissemination				\$ 33,000	\$ 25,000	\$ 6,000	\$ 2,000
1.4.1	Workshops, seminars, lectures		12	\$ 1,500	\$ 18,000	\$ 15,000	\$ 3,000	
	Awareness-building and dissemination to merchants, entrepreneurs, and professionals		10	\$ 1,000	\$ 10,000	\$ 7,000	\$ 3,000	
1.4.2	Creation and maintenance of an interactive section for queries on the website				\$ 5,000	\$ 3,000		\$2,000
Component 2					\$287,200	\$220,160	\$ 7,000	\$60,040
2.1	Workshops for trainers	Int'l cons. *6 mos.	6	7,000	\$ 42,000	\$ 42,000	\$ -	
2.1.1		Local consultant	20	300	\$ 6,000			
2.2	Professional training in IFRS and ISA				\$115,200	\$92,160		\$23,040
2.2.1	Training for 2,800 accountants	workshops	96	\$ 1,200	\$115,200	92,160		23,040
2.3	Continuing education and certification program				\$ 36,000	\$ 36,000	\$ -	
2.3.1	Design and implementation of a continuing education program	2 cons. *9 mos.	18	\$ 2,000	\$ 36,000	\$ 36,000		
2.3.2	Certification program for 800 accountants	workshops	17	\$ 1,500	\$ 25,500	\$ 25,500		
2.3.3	Workshops on ISA	workshops	30	\$ 1,000	\$ 30,000	\$ 30,000		
2.4	System of professional quality control				\$ 58,000	\$ 24,000	\$ 7,000	\$ 27,000
2.4.1	Standardization of work papers				\$ 14,000		\$ 7,000	\$ 7,000
2.4.3	Computer-assisted auditing techniques			\$ 20,000	\$ 20,000			\$ 20,000
2.4.4	Training for independent professionals on quality control and management systems	Int'l cons. 3 mos.	1	\$ 24,000	\$ 24,000	\$ 24,000		
2.5	Computer equipment and software				\$ 36,000	\$ 26,000	\$ -	\$ 10,000
2.4.1	Equipment for courses outside the capital and for computer-assisted auditing		25	\$ 1,000	\$ 25,000	\$15,000		\$ 10,000
2.4.2	Server		1	\$ 3,000	\$ 3,000	\$ 3,000		
2.4.4	Software and licenses		1	\$ 8,000	\$ 8,000	\$ 8,000		
Component 3					\$ 50,000	\$ 50,000	\$ -	\$ -
3.1	Ethics program	Consultant 9 mos.			\$ 50,000	\$ 50,000	\$ -	\$ -
3.1.1	Define indicators of professional conduct				\$ 23,000	\$ 23,000		
3.1.2	Comparative study of codes of ethics				\$ 10,000	10,000.00		
3.1.3	Design and dissemination of disciplinary measures				\$ 2,000	\$ 2,000		
3.1.4	Professional evaluation methodology				\$ 11,000	\$ 11,000		
3.1.5	Procedures for professional conduct				\$ 4,000	\$ 4,000		
Technical project coordination					\$ 54,000	\$ -	\$ 54,000	\$ -
4.1	Coordinator	36 months	1	\$ 1,500	\$ 54,000	\$ -	\$ 54,000	
Administrative expenses					\$ 52,960	\$ -	\$ 29,600	\$ 23,360
5.1	Secretary	36 months	1	\$ 600	\$ 21,600		\$ 21,600	
5.2	Office expenses	36 months	1	\$ 500	\$ 18,000		\$ 8,000	\$ 10,000
5.3	Rent	36 months			\$ 13,360			\$ 13,360
Monitoring and evaluation					\$ 27,000	\$ 27,000	\$ -	\$ -
6.1	Midterm evaluation		1	\$ 12,000	\$ 12,000	\$ 12,000		
6.2	Final evaluation		1	\$ 15,000	\$ 15,000	\$ 15,000		
Audits					\$ 10,000	\$ 10,000		
7.1	Audit		1	\$ 10,000	\$ 10,000	\$ 10,000		
Contingencies					\$ 11,840	\$ 11,840	\$ -	\$ -
8.1	Contingencies				\$ 11,840	\$ 11,840		
SUBTOTAL					\$612,000	\$420,000	106,600	\$ 85,400
Percentage						69%	17%	14%
Cluster Activities (*)					\$ 15,000	\$ 15,000	\$ -	\$ -
9.1	Technical advisor and information sharing		1	\$ 15,000	\$ 15,000	\$ 15,000		
OVERALL TOTAL					\$627,000	\$435,000	106,600	\$ 85,400

(*) Cluster Activities do not count as part of the budget

International consultant for training in IFRS and ISA, 60 days at US\$500 per day + 3 trips at US\$3,000 (US\$1,000 each), 90 days per diem at US\$140 = US\$45,600
3 workshops to train trainers, each for a total of 60 hrs, to be taught in 4 consecutive weeks, for 36 instructors.

**RELATED PROJECTS IN COSTA RICA AND IN THE ACCOUNTING AND AUDITING CLUSTER
IMPROVING THE QUALITY OF FINANCIAL REPORTING
(CR-M1001)**

A. Similar or related MIF projects

Project number and approval date	Project title, executing agency, and amount	Date of signature and disbursement period in months	Amount disbursed	Comments
ATN/MT-5643-CR 30 July 1997	Program for support for opening up the financial system to the private sector Finance Ministry US\$1.6 million MIF contribution	30 July 1997 42 months	36% Complete	Approval of privatization or market liberalization legislation proved impossible during the life of the project, despite technical support activities to promote informed debate on the issues. As a result, the components for banking and insurance were reduced in scope, reassigning part of the funds to address SUGEF's institutional capacity needs.
ATN/MT-5644-CR 3 July 1997	Program to strengthen the capital market Finance Ministry US\$1.6 million MIF contribution	30 July 1997 24 months	86% Complete	The objectives of the debt management component were met, including: (i) the standardization of public debt, resulting in an increase in the volume of trading in primary and secondary markets (DATA); (ii) the public debt auction mechanism was improved, resulting in greater transparency and less speculation; (iii) the Public Debt office in Treasury assumed both internal and external control of debt management and was reorganized, with specialized training for the staff, and linked information systems with the Central Bank. As a result of the project, through improved efficiencies in debt and cash management, the government has saved resources formerly spent on excess interest and commissions payments.

B. Similar or related Bank projects

Project number and approval date	Project title, executing agency, and amount	Date of signature and disbursement period in months	Amount disbursed	Comments
1030/OC-CR 30 July 1997	Technical cooperation loan for Structural Reform Decentralized Unit under the Finance Ministry US\$12,650,000 IDB loan	22 October 1997 48 months	94%	The project has made satisfactory progress throughout the first half of 2004. The authorities' timely intervention, with the Bank's support, has helped to resolve some of the problems that were hampering project execution. Despite the efforts put forth by the government, the lack of political consensus is making it difficult for reforms to make their way through the Legislative Assembly, which is affecting some program components. Major reforms still pending are expected to be passed during the course of the third quarter of 2004, particularly the tax reform. Most of the activities underway should be completed satisfactorily during the extension period for the resources already committed.

C. Projects related to the same sector or beneficiaries

See section A.

D. Projects in the accounting and auditing cluster

Project number and approval date	Project title, executing agency, and amount	Date of signature and disbursement period in months	Amount disbursed	Comments
ATN/MT-8113-JA 20 November 2002	Improving the application of and compliance with international accounting and auditing standards Institute of Chartered Accountants of Jamaica (ICAJ) US\$665,000 MIF contribution	21 March 2003 36 months	10%	The project was considered eligible for the first disbursement in November 2003. The project coordinator was hired in April 2004. The delay was largely due to the region's shortage of experts on the topic. The project activities that were put on hold during the wait for a coordinator to be hired will resume in July 2004 after a new action plan is received at the end of June.

Project number and approval date	Project title, executing agency, and amount	Date of signature and disbursement period in months	Amount disbursed	Comments
ATN/MT-8114-TT 20 November 2002	Improving the application of and compliance with international accounting and auditing standards Institute of Chartered Accountants of Trinidad and Tobago (ICATT) US\$665,000 MIF contribution	12 March 2003 36 months	10%	The project has run into a series of delays owing to the project coordinator's nonresponsiveness. The executing agency has decided to suspend the coordinator's contract and to proceed with hiring a new coordinator, who will hopefully be on board in July 2004.
ATN/MT-8243-ME 12 March 2003	Convergence with international accounting standards for financial reporting Mexican Institute of Public Accountants, A.C. (IMCP) US\$1.7 million MIF contribution	30 July 2003 36 months	21%	Despite the emergence of some delays when the project began, it is being carried out satisfactorily and in accordance with the timetable of activities.
ATN/MT-8476-UR 10 October 2003	International financial reporting and auditing standards Association of Accountants, Economists, and Administrators of Uruguay US\$420,000 MIF contribution	15 December 2003 36 months	10%	The first disbursement has been made and the executing agency has begun to carry out preliminary activities.
ATN/MT-8617-CH 21 January 2004	International financial reporting and auditing standards Chilean Association of Accountants A.G. US\$750,000 MIF contribution	17 May 2004 36 months	0%	Efforts are being made to meet the conditions precedent, and the evidence of their being met is expected to be submitted to the Bank in July 2004.