

Report on Observance of Standards and Codes (ROSC)

Accounting and Auditing Module

Myanmar
June 2017



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TABLE OF CONTENTS

LIST OF ACRONYMS	iv	
PREFACE	1	
EXECUTIVE SUMMARY	2	
I. INTRODUCTION	6	
II. ENTERPRISES IN MYANMAR	9	
III. STATUTORY FRAMEWORK	14	
IV. THE PROFESSION	20	
V. PROFESSIONAL EDUCATION AND TRAINING	23	
VI. ACCOUNTING STANDARDS	28	
VII. AUDITING STANDARDS	32	
VIII. MONITORING, COMPLIANCE AND ENFORCEMENT	36	
IX. AREAS FOR CONSIDERATION	38	
APPENDIX I	Review of Audited Financial Statements of non-State-owned Economic Enterprises	45
APPENDIX II	State-Owned Economic Enterprises as of September 2016	48
APPENDIX III	International Financial Reporting Standards (IFRS) Transition Planning	49
APPENDIX IV	Report on the Observance of Standards and Codes Accounting and Auditing (ROSC A&A) Steering Committee Member List	51
APPENDIX V	List of Audited Financial Statements Reviewed by the ROSC A&A Task Team	52

LIST OF ACRONYMS

ACCA	Association of Chartered Certified Accountants
ASEAN	Association of Southeast Asian Nations
CBM	Central Bank of Myanmar
CPA	Certified Public Accountant
CPD	Continuing Professional Development
CPF	Country Partnership Framework
DICA	Directorate of Investment and Company Administration
FDI	Foreign Direct Investment
FMRR	Financial Management Rules and Regulations
GSP	Generalized System of Preferences
ICAEW	Institute of Chartered Accountants in England and Wales
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standards
IPSAS	International Public Sector Accounting Standards
ISA	International Standards on Auditing
ISSAI	International Standards of Supreme Audit Institutions
MAC	Myanmar Accountancy Council
MAC Law	Myanmar Accountancy Council Law 2015
MEC	Myanmar Economic Corporation
MFI	Micro Finance Institution
MFRS	Myanmar Financial Reporting Standards
MICPA	Myanmar Institute of Certified Public Accountants
MSA	Myanmar Standards on Auditing
OAGU	Office of the Auditor General of the Union
PAO	Professional Accountancy Organization
PIE	Public Interest Entity
PQP	Professional Qualification Program
ROSC	Report on Observance of Standards and Codes
SEC	Securities and Exchange Commission
SEE	State-owned Economic Enterprise
SME	Small and Medium-sized Enterprise
UMEHL	Union of Myanmar Economic Holding Limited

PREFACE

The Reports on the Observance of Standards and Codes (ROSC) are a joint World Bank and International Monetary Fund (IMF) initiative that helps member countries strengthen their financial systems by improving compliance with internationally recognized standards and codes. The ROSC was developed in the wake of the financial crisis of the late 1990s as part of a series of measures to strengthen the international financial architecture. The global financial community believed the implementation of internationally recognized standards and codes would provide a framework to strengthen domestic institutions, identify potential vulnerabilities, and improve transparency.

The Financial Stability Forum and G22 meetings stressed the need for internationally recognized accounting and auditing standards because they promote transparency, mitigate the risk of economic and financial instability, and foster market efficiency. Ultimately, the ROSC aims to enhance countries' resilience to shocks and to support their risk assessment and investment decisions through the preparation of reports in 12 key areas.¹ This report focuses on accounting and auditing standards and practices in public interest entities, as well as the institutional framework that underpins the corporate financial reporting system, in Myanmar.

The Myanmar ROSC in Accounting and Auditing was prepared in active collaboration with the Office of the Auditor General of the Union, the Myanmar Accountancy Council and the Myanmar Institute of Certified Public Accountants. The review was conducted with key stakeholders and representatives of the accounting profession through discussions and roundtable meetings led and facilitated by the Myanmar country authorities.

The ROSC team thanks the officials and coordinators of the various institutions for their valuable assistance in facilitating this review. This ROSC report was prepared by a task team of World Bank staff comprising Christopher Fabling (Senior Financial Management Specialist), Bill Palmer (International Consultant), Alfred Borgonovo (Senior Financial Management Specialist), Bonnie Anne Sirios (Senior Financial Management Specialist) and Kyemon Soe (Financial Management Analyst), under the supervision of Roberto Tarallo (Practice Manager, Governance Global Practice, Financial Accountability and Reporting) and with guidance from Abdoulaye Seck (Myanmar Country Manager). Wut Yi Win (Operation Analyst) provided administrative support throughout the preparation of this report.

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¹ The 12 ROSC areas are as follows: data transparency; fiscal transparency; monetary and financial policy transparency; banking supervision; securities; insurance; payments system; anti-money laundering and combating financial terrorism; corporate governance; accounting and auditing; insolvency; and creditor rights.

EXECUTIVE SUMMARY

Introduction

Since launching fundamental political and economic reforms in 2011, Myanmar has been undergoing a major transformation aimed at increasing openness, empowerment and inclusion. The economic transition has witnessed an acceleration in growth, buoyed by improved macroeconomic management, increased gas production and exports, and stronger performance in the non-gas sectors as the economy opened up. Medium-term economic growth is projected to average 7.1 percent per year.

The new Government's economic objectives envisage Myanmar's economy becoming more competitive and with the ability to attract increased foreign direct investment. The objectives include the development of an integrated capital market and a modern financial sector. A fundamental foundation for any market-based economy is high quality financial reporting and auditing practices. This plays a vital role in promoting improved transparency and accountability thereby ensuring a level playing field and promoting investor confidence.

Impacts of the changes

The Government has initiated many changes designed to modernize the statutory framework under which enterprises within Myanmar operate. There will be many impacts from these changes on the accounting and auditing profession as Myanmar moves to increase the alignment of its statutory institutional framework for financial reporting and audit with international good practice.

An indication of the relative priority of these changes and a suggested timeframe for implementation of the policy recommendations is included in this report. This is intended to assist the Myanmar authorities with their development of an implementation plan. Key factors that will affect the speed of implementation will be how quickly the necessary capacity development can take place and the level of technical and financial resources that are available to support the reform process.

Statutory Framework

It is important that the statutory framework be finalized as soon as possible. This would include the enactment of the Myanmar Companies Law, the finalization of the rules and regulations for the implementation of the Securities Exchange Law and Financial Institutions Law and the establishment of a differential reporting framework.

As part of the finalization of the statutory framework, the Myanmar Accountancy Council (MAC) and the Myanmar Institute of Certified Public Accountants (MICPA) should work with the regulators to ensure that consistent definitions of Public Interest Entities (PIEs) and non-PIEs are determined. It is highly desirable that there are consistent requirements for PIEs for financial reporting, audit and financial statement publication. It is also important that the requirements for non-PIEs achieve the right balance between the public interest and the cost of compliance.

The Profession

The MAC is the regulatory licensing body for the accountancy profession. The MICPA is Myanmar's Professional Accountancy Organization (PAO). There is a great deal of collaboration between these two organizations and MICPA currently does not operate independently of MAC.

The respective roles and responsibilities of MAC and MICPA will need to be clarified. In the medium term, MICPA will need to operate as an independent PAO and be able to advocate in the public interest on behalf of the accounting profession. This may require amendments to the Myanmar Accountancy Law at some time in the future. Once the respective roles and responsibilities of the two organizations have been clarified, they will then need to determine the level of resources they require to fulfill their mandates.

Myanmar is experiencing rapid economic growth and this is likely to result in a significant increase in the demand for accountants and auditors with internationally recognized qualifications. It is therefore worth considering an easing of the current restrictions on the ability of foreign accountants and auditors to practice in Myanmar as this would be a key means of meeting the increased demand.

Professional Education and Training

The current Professional Qualification Program (PQP) syllabus does not fully meet international standards and benchmarks. Full implementation of the revised PQP and the associated learning materials should be considered. Strengthening the Continuing Professional Development (CPD) program will also be important in order to align the Myanmar Certified Public Accountant (CPA) designation with international standards and benchmarks.

To be fully effective these changes will need to be accompanied by upgrading university accounting and finance degree programs. Over the medium term, university teaching staff will need to be retrained as part of the transition to a competency based curriculum. The development of this type of curriculum requires full consultation with employers and defines the competencies and learning outcomes expected for a professional accountant.

In the longer term these developments will help the Myanmar CPA designation to achieve full international recognition and ensure that there is a sustainable pipeline of qualified accountants and auditors to meet the demands of Myanmar's developing economy.

Accounting Standards

MAC/MICPA are in discussions with the International Financial Reporting Standards (IFRS) Foundation regarding the adoption of the latest IFRS suite of standards. However, currently there is a standards gap as there have been no updates of Myanmar Financial Reporting Standards (MFRS) or MFRS for Small and Medium-sized Enterprises (SMEs) for changes to the existing standards or for new IFRS and IFRS for SMEs standards issued since the 2009 version. There have been many significant changes to the international standards since 2009.

There is also a compliance gap between the requirements of the current accounting standards and actual practice across all types of enterprises. The current inconsistencies in accounting treatments and disclosures mean that meaningful comparisons within sectors and across different types of enterprises is very difficult.

The transition process to full compliance with IFRS is a medium to long-term reform agenda. Proper planning for implementation of the change process will be essential and it is recommended that IFRS Transition Plans be developed for all key sectors as substantial capacity building will be required.

Auditing Standards

There have been no updates for new auditing standards issued since 2009, although Myanmar is likely to adopt the latest version of the clarified International Standards on Auditing (ISA) in 2017. The recent changes to ISA with respect to the form and content of the audit reports of publicly listed entities are particularly important. The International Federation of Accountants (IFAC) Code of Ethics has also been revised since 2009. The changes are significant as they provide new international good practice benchmarks for members of the accounting profession to meet. They also have a direct relationship to improvements in the standard of corporate governance and the independence of auditors.

It will be necessary to determine a timeframe for the adoption of the latest version of International Standards on Auditing (ISA), the International Standard on Quality Control (ISQC) 1 and the International Federation of Accountants Code of Ethics. Support programs for auditors will be required to assist them with practical implementation guidance. It is recommended that the focus of the support programs be on auditors of Public Interest Entities (PIEs) in the short term. Support programs for non-PIE auditors will also be necessary over the medium term. There are concerns about audit quality, auditor independence and the low level of audit fees all of which have major corporate governance implications. The support programs will provide a key mechanism to help to address these concerns.

Monitoring, compliance and enforcement

The lack of a robust system of monitoring, compliance and enforcement is a further factor that is contributing to the compliance gaps with accounting, audit and ethical standards requirements. MAC/MICPA will need to develop and implement appropriate monitoring, compliance and enforcement arrangements in collaboration with the sector regulators. It is suggested that MAC issue a Notification that outlines the arrangements that will be implemented after consultation with the accountancy profession.

Given MAC/MICPA current capacity and resource constraints, it is suggested that in the short term the arrangements should focus on:

- The review of PIE financial statements for compliance with accounting standards; and
- Audit quality assurance for PIE auditors.

In the medium term the arrangements can be extended to non-PIE financial statements and the quality of audit and assurance services provided by non-PIE auditors.

Areas for consideration

The areas for consideration, why they are important and the risks of not taking any action are detailed in section IX on page 38. The following diagram provides an overview of an indicative implementation timeframe for the key policy recommendations.

ACCOUNTING AND AUDITING POLICY RECOMMENDATIONS

	STATUTORY FRAMEWORK	ACCOUNTING PROFESSION	EDUCATION & TRAINING	ACCOUNTING	AUDITING STANDARDS	MONITORING & COMPLIANCE
SHORT TERM 1 to 3 years	<p>Finalize legislative framework</p> <p>Determine which enterprises should be deemed PIEs</p> <p>Work with regulators to ensure PIE financial reporting, audit and publication requirements are consistent</p> <p>Implement differential reporting framework</p> <p>Develop Code of Corporate Governance</p> <p>Implement Code of Corporate Governance</p> <p>→</p> <p>Change the MAC Law</p>	<p>Clarify the mandates of MAC/MICPA</p> <p>Review restrictions on foreign accountants</p> <p>MAC/MICPA to determine resources they require to fulfill their mandates</p> <p>MICPA Associate member of IFAC</p> <p>Address issue of low audit fees</p> <p>Determine what changes are required to the MCA Law</p>	<p>Fully implement revised PQP program and learning materials</p> <p>Broaden avenues for MICPA entry</p> <p>Upgrade accounting and finance degree programs</p> <p>Conduct survey on competency requirements for professional accountants</p> <p>Develop a competency-based framework</p> <p>Implement the competency based framework</p> <p>Competency-based framework fully implemented</p>	<p>Develop IFRS transitions plans for key sectors</p> <p>Implement IFRS transition plans</p> <p>Implement IFRS for SMEs and simplified framework for Micro SMEs</p> <p>Ensure mechanisms are in place to keep the accounting standards up to date</p> <p>→</p>	<p>Determine adoption of ISA, ISQCI and IFAC code of ethics</p> <p>Support program for auditors of PIEs</p> <p>Support program for non-PIE auditors</p> <p>Ensure mechanisms are in place to keep the auditing standards up to date</p> <p>→</p>	<p>MAC consult on proposed arrangements</p> <p>MAC issue notification</p> <p>MAC attend of AARG and IFIAR</p> <p>Implement compliance and enforcement arrangements for PIEs</p> <p>Implement compliance and enforcement arrangements for non-PIEs</p> <p>→</p> <p>MAC full member of AARG and IFIAR</p>
MEDIUM TERM 3 to 6 years						
LONG TERM Over 6 years						
KEY OUTCOMES	Code of Corporate Governance fully implemented	MICPA full member of IFAC	Myanmar CPA designation internationally recognized	Full compliance with IFRS for SMEs	Full compliance with ISA, ISQCI and IFAC code of ethics	Full implementation of regime achieved

Note: bold italics = critical success factors

I. INTRODUCTION

1. **This assessment of accounting and auditing practices in Myanmar is part of a joint initiative implemented by the World Bank and the International Monetary Fund to prepare Reports on the Observance of Standards and Codes (ROSC).** The assessment focuses on the strengths and weaknesses of the accounting and auditing environment that influence the quality of corporate financial reporting, and includes a review of both statutory requirements and actual practice. It uses IFRS and the ISA as benchmarks and draws on international experience and good practice.
2. **This is the first ROSC Accounting and Auditing assessment in Myanmar and has been completed at the request of the Government of Myanmar.** The assessment has the following objectives: (i) to articulate the ingredients of a sound financial reporting institutional framework; (ii) to assess how well current Myanmar accounting and auditing practices are aligned with international good practice and identify any key gaps; and (iii) to make practical recommendations on how Myanmar can achieve increased alignment with international good practice over the medium to long term.
3. **The assessment takes account of the relatively early stage of development of Myanmar's accounting profession and its financial reporting institutional framework.** While the accounting profession in Myanmar has a long history, its development has been impacted by many years of isolation. This means that the institutional framework for corporate financial reporting and the associated accounting and auditing practices are in need of substantial modernization. It is recognized that a number of areas for consideration and the associated recommendations will take several years to implement and that the implementation process will require ongoing technical and financial support for capacity building.
4. **This assessment also supports the World Bank's Country Partnership Framework (CPF) for Myanmar.** The CPF for 2015-2017 contains pillars that include a focus on improving institutional effectiveness, good governance and private sector-led economic growth. They aim to stimulate job creation in Myanmar by building a dynamic private sector, by providing support to improve access to finance for small businesses, telecommunications and information technology, modern financial institutions, and the expansion of overseas trade for Myanmar businesses. The World Bank Group's support aims to increase the number of people, micro-enterprises, and small and medium enterprises using financial services by 200,000, and to facilitate financing of up to US\$40 million by 2017. World Bank Group support also aims to help the Government mobilize US\$150 million in private investment by creating a business environment conducive to private sector investment.²

Country Context

5. **Myanmar is one of the least developed countries in Southeast Asia and is in the midst of an extraordinary transition.** Since launching fundamental political and economic reforms in 2011, the country has been undergoing a huge transformation aimed at increasing openness, empowerment and inclusion. The elections in Myanmar on November 8, 2015 marked a historic milestone in the country's political and economic transition.

² World Bank Country Partnership Framework for Myanmar 2015-2017

The opposition National League for Democracy (NLD) swept into power, leading to the Parliament's election of Myanmar's first civilian state leader in decades.

6. **As the largest country in mainland, Southeast Asia, Myanmar has one of the lowest population densities in the region.** It has fertile lands, significant untapped agricultural potential, and a rich endowment of natural resources. Its geographic location at the intersection of China and India, two of the world's most dynamic economies, means it is well positioned to resume its traditional role as a regional trading hub and a key supplier of minerals, natural gas and agricultural produce. However, despite its potential, a legacy of conflict, isolation, and ineffective policies has meant that the per capita gross domestic product (GDP) was only US\$1,228 in 2015, which was up from US\$1,118 in 2012.³
7. **Poverty in Myanmar is unequally concentrated in rural areas, where poor people rely on agricultural and casual employment for their livelihoods.** A large number of households are also near the poverty line and likely to be sensitive to economy-wide shocks. Since the majority of the poor are engaged in subsistence agriculture, they may have been shielded from recent inflationary pressures but the urban poor are likely to have been highly affected by recent bouts of food price inflation.
8. **Among members of the Association of Southeast Asian Nations (ASEAN) countries, Myanmar has the lowest life expectancy and the second-highest rate of infant and child mortality.** Just one-third of the population has access to the electricity grid, and road density remains low at 219.8 kilometers per 1,000 square kilometers of land area. With the liberalization of the telecommunications sector in 2013, mobile and internet, penetration has increased significantly from less than 20 percent and 10 percent in 2014, to 60 percent and 25 percent respectively by 2016.⁴

Overview of Myanmar's Economic Objectives

9. **The new Government's economic objectives reflect the reforms required to make Myanmar's economy more competitive and attract foreign direct investment (FDI) inflows. They include:**
 - Generating high and sustainable economic growth;
 - Encouraging privatization of state-owned economic enterprises (SEEs);
 - Improving the financial system particularly reform of the state-owned financial institutions;
 - Promoting exports and FDI; and
 - Increasing job opportunities.
10. **Since the economic transition began, growth has accelerated, buoyed by improved macroeconomic management, increased gas production and exports, and stronger performance in the non-gas sectors as the economy opened up.** However, economic growth dropped to 7 percent⁵ in 2015/16 due to floods in July 2015 and a slowdown in private investment. The flooding affected some of the poorest and most vulnerable people in the country, and caused inflationary pressures and a slowdown in new investments. Medium-term economic growth is projected to average 7.1 percent per year. A recent shift in FDI from extractives to the manufacturing and services sectors signals the potential for FDI to support economic transformation in Myanmar.
11. **Capital market development and a modern inclusive financial system are key components of the Government's reform program.** The program aims to promote private sector-led economic growth and full integration into the regional and global economy. Following 50 years of isolation, Myanmar has very limited integration into regional and global markets. As such, the establishment of the ASEAN Economic Community

³ International Monetary Fund Country Report no. 15/267 September 2015

⁴ <http://www.worldbank.org/en/country/myanmar/overview#1>

⁵ Ibid

in 2015 could be a major driver of inclusive growth for Myanmar. Beyond the region, economic sanctions have started to be dismantled, with key western markets also opening up additional opportunities.

12. **The United States of America suspended most sanctions in May 2012, with imports of most goods from Myanmar now authorized and restrictions on banks eased.** In May 2013, the United States signed a Trade and Investment Framework Agreement aimed at boosting trade, and recently announced its intention to grant Myanmar access to the preferential tariff system of the “Generalized System of Preferences” (GSP). In addition, the European Union lifted its sanctions in April 2013 and admitted Myanmar to its Everything But Arms (EBA) scheme in July 2013, granting zero duties to all goods (besides arms and ammunition) originating from the country. These market access openings present important opportunities for Myanmar to diversify its exports and integrate into global value chains.
13. **The Government recognizes that high quality financial reporting and auditing practices are vital to support a modern market-based economy.** Comparable, transparent, and reliable financial information is fundamental for an efficient and integrated capital market. The European Commission emphasized this point recently when it stated that a lack of comparability will discourage cross-border investment because of uncertainty about the credibility of financial statements.⁶
14. **The Government has therefore initiated many changes designed to modernize the statutory framework under which enterprises within Myanmar operate.** A new Myanmar Companies Law has been drafted and is expected to be enacted in 2017. This will modernize the existing legislation, reflecting the country’s intention to integrate into the global market. There will also be a merger of the Foreign Investment Law and the Myanmar Citizen Investment Law to provide a single, streamlined legal structure for both foreign and Myanmar businesses. In addition, an update to the State-Owned Economic Enterprises Law will provide further opportunities and autonomy for private business in State-owned sectors such as transportation and telecommunications.
15. **The Financial Institutions Law 2016 will make significant positive changes to the operating environment for financial institutions.** The implementing regulations for this law and the Central Bank of Myanmar Law 2013 are, however, still under development. The Securities Exchange Law 2013 and the Securities and Exchange Rules and Regulations dated July, 31 2015 established the statutory framework for the Yangon Stock Exchange, other related companies and stakeholders. There are now three publicly listed companies. However, again the regulatory framework is still under development. Finally, the importance of developing and promoting entrepreneurship within the SME sector has been recognized with the enactment of the SME Development Law 2015.
16. **All these legislative changes will have impacts for the accounting and auditing profession.** Many accounting and auditing reform initiatives have begun in order to increase alignment with international good practice. These initiatives, including the enactment of the Myanmar Accountancy Council Law 2015 (MAC Law), are discussed in detail in this report. Many are being supported with the assistance of development partners and international Professional Accountancy Organizations (PAOs).⁷

⁶ European Commission Communication, 11.05.99, on integration of financial markets.

⁷ Including the World Bank Group, the African Development Bank, the International Monetary Fund, Gesellschaft für Internationale Zusammenarbeit, the Institute of Chartered Accountants in England and Wales and the Association of Chartered Certified Accountants.

II. ENTERPRISES IN MYANMAR

State-Owned Economic Enterprises (SEEs)

17. **For most of its post-independence period, Myanmar remained under military dictatorship.** Enterprises owned by the State or the military have long dominated the economy. Furthermore, state controls and economic isolation resulted in suppressed entrepreneurship and a diminished role for the private sector. This was characterized by stagnated infrastructure and technology development, the lack of a modern financial sector and capital market, and low levels of FDI.
18. **The Government of Myanmar retains exclusive rights to conduct business in certain sectors.** These are outlined in the State-Owned Economic Enterprises Law 1989. The law allows local and foreign investors to conduct business in these sectors through contracts or joint venture agreements with the Government. By law, the Government has final authority over all aspects of operations in these sectors, including the production, transportation, storage and sale of products, and may halt, change or make prescriptions with due notification.⁸

LIST OF STATE-OWNED SECTORS

Sector	Description of Activity
Teak wood	Extraction, domestic sale and exporting
Forested plantations	Cultivation and conservation, excepting village owned firewood plantations for the personal use of the villagers
Petroleum and natural gas	Exploration, extraction, processing, refinement, domestic sale and exporting
Pearls, jade and precious stones	Exploration, extraction and exporting
Fisheries reserved for government research	Breeding and production of fish, prawns and other aquatic livestock
Postal and telecommunication services	All related activities
Air and railway transportation services	All related activities
Banking and insurance services	All related activities
Broadcasting and television services	All related activities
Metal	Exploration, extraction and exporting
Electricity generating services	Other than private and co-operative electricity generating services permitted by law

19. **In 1995, a Privatization Commission was established to oversee a privatization program for SEEs. The stated objectives of the program were to:**

⁸ <http://www.dica.gov.mm/en/state-owned-economic>

- Increase the efficiency of enterprises through competition;
 - Strengthen the private sector and increase its role in the development of the State economy; and
 - Facilitate the market oriented economic system being introduced by the State.⁹
20. **The Commission introduced a privatization plan covering those enterprises that were nationalized in the 1960s.** It was intended to systematically turn them into more effective businesses and was implemented through auctioning, leasing or establishing joint ventures with local or foreign investors. These included production sharing and exploration joint ventures in the petroleum and natural gas sectors, and plantation concessions in the forestry sector.
21. **More recently, further efforts have been made to allow for increased private sector participation in many of these sectors.** For example, licenses have been issued to private sector operators in the airline industry while in the financial sector, licenses have been issued to private sector commercial banks, finance companies and insurance companies.
22. **However, the SEE sector remains large, with a diverse range of business and operating activities.** SEE operations account for nearly half of the entire public sector's operations. They contribute nearly one-third of income tax collections, and nearly 20 percent of commercial tax collections. Tax and other contributions from the oil and gas sector alone account for between 10 and 15 percent of general government receipts.¹⁰
23. **SEEs are listed in the State-Owned Economic Enterprises Directive (1988).** Appendix II includes an up-to-date list of 32 SEEs as at September 2016, categorized by Industry/Sector based on a schedule supplied by the Ministry of Planning and Finance.¹¹
24. **Given the size and importance of some of the SEEs to public sector revenues, it is likely that a number of them would meet the definition of PIEs.**¹² In addition, a number would also be classified as 'for profit' entities, while several have – or are in the process of – being corporatized.¹³ This would normally mean that these companies would be required to meet a higher standard of public accountability and transparency.¹⁴
25. **We were advised that it is intended that all those SEEs that are corporatized will be required to comply with same statutory financial reporting and statutory audit requirements as private sector companies.** This will mean that they will need to comply with the MAC Law and prepare their financial statements in full compliance with MFRS. They will also be required to appoint a private sector auditor¹⁵ who will conduct his/her audits under MSA and the audited financial statements will need to be made publicly available.

9 Privatization Commission webpage: www.mnped.gov.mm

10 The World Bank Group. 'Myanmar Economic Monitor' (May 2016).

11 It is difficult to be sure of a complete list of SEEs because there is no clear definition. For example, before the revocation of the Yangon City Development Law and the Mandalay City Development Law in July 2016, the Yangon City Development Committee and the Mandalay City Development Committee were off-budget municipalities. While they were technically independent they were, however, part of the Government. Both had wide ranging responsibilities with the ability to raise their own revenues through tax collection, fees licenses and property development. They also owned entities (e.g. Yangon City Bank). Since July 2016 these municipalities have become part of regional government. MITS, MPT Naypyitaw Sipin Bank and the Rural Development Bank are some other examples of potential off budget SEEs.

12 The definition of PIEs differs across jurisdictions but they are normally defined as listed companies, credit institutions and insurance undertakings. In addition, some jurisdictions designate as PIEs other entities that are of significant public relevance, because of the nature of their business, their importance to the economy, their size, or the number of employees.

13 For example, Myanmar National Airways, Inland Water Transport and Port Authorities.

14 The recently issued OECD Guidelines on Corporate Governance of State-Owned Enterprises 2015 stipulate that "state-owned enterprises should observe high standards of transparency and be subject to the same high quality accounting, disclosure, compliance and auditing standards as listed companies."

15 The appointment of the auditor will require approval by the Office of the Auditor General of the Union if the SEE receives any funding from the Government budget.

Listed Companies

26. **There are currently three publicly listed companies on the Yangon Stock Exchange: First Myanmar Investment Company Limited, Myanma Citizens Bank Limited and Myanmar Thilawa SEZ Holdings Public Limited.** The Yangon Stock Exchange was launched in late 2015, with detailed listing requirements published on its website in November 2015. Several further listing applications are currently being considered. Although there is strong interest from both foreign investors and domestic private investors, the generally poor standard of corporate governance and corporate financial reporting is seen as a constraint to capital market development.

Unlisted Public Companies

27. **There are approximately 260 public companies that are not listed on the stock exchange.** For many years, no new public companies were allowed to register. However, following a change in Government policy there was a surge of new registrations. The stock exchange has established a secondary over-the-counter market¹⁶ for these unlisted public companies to sell their shares. Previously such companies operated in an unregulated market and operated their own over-the-counter exchange centers.
28. **This category of enterprises includes military-owned companies which are important in the macro-economic context as they make up a substantial portion of Myanmar's taxation base.**¹⁷ Most of these companies are owned by two large holding companies: Union of Myanmar Economic Holding Limited (UMEHL)¹⁸ and Myanmar Economic Corporation (MEC).¹⁹ These companies were previously incorporated under the Myanmar Special Company Act 1950 but are in the process of becoming incorporated under the Myanmar Companies Act 1914.²⁰
29. **Given their size and importance in the Myanmar economy²¹ both these holding companies would likely also be considered PIES.** UMEHL and MEC are both in the top 10 of the Commercial Taxpayers' list published by the Internal Revenue Department of the Ministry of Planning and Finance. Again, this would normally mean that these companies would need to meet a higher standard of public accountability and transparency.
30. **The ROSC team were advised that both these holding companies and their subsidiaries are now regarded as non-State-owned companies.** As they are both in the process of transitioning to become public companies²² incorporated under the Myanmar Companies Act 2014, this will mean that from the 2016/2017 financial year they will need to meet the same legal and regulatory requirements as other companies. In particular, they will need to comply with the MAC Law and prepare their financial statements in full compliance with MFRS, appoint a private sector auditor²³ who will conduct their audit under MSA, and make their audited financial statements publicly available.

16 Over-the-counter-markets means an organized market for the trading of unlisted securities.

17 Business conglomerates in the context of Myanmar's Economic Reforms: www.ide.go.jp/English/Publish/Download/Brc/pdf/13_07.pdf

18 UMEHL was established in 1990 and initially operated businesses primarily in the light industry and food sectors. It has since diversified into other sectors including banking, tourism, services, brewing, textiles, trading and gem mining. It has recently moved into retailing and is a member of the consortium for the Thilawa Special Economic Zone project.

19 MEC was established in 1997 and operates businesses mainly in the heavy industries. It has mills and factories, steel and cement plants, rubber plantations and various service companies. It also has interests in gem, jade and coal mining as well as banking, logistics and telecommunications.

20 MEC is overseen by the Ministry of Defense Quarter Master General's Office, with all of its shares held by active military personnel. Under order No. 90/2016 dated March 30, 2016, all shares in UMEHL effective from that date have been held by veteran military personnel and it is a public company.

21 UMEHL and MEC are both in the top 10 commercial taxpayers' list - Business Conglomerates in the Context of Myanmar's Economic Reforms: www.ide.go.jp/English/Publish/Download/Brc/pdf/13_07.pdf

22 They will be classified as unlisted public companies rather than private companies as they have more than 50 shareholders.

23 Currently the audits are conducted by the Controller of Military Accounts.

Private Companies

31. **There are approximately 48,000²⁴ private companies.** These companies have less than 50 shareholders, not including those persons employed by the company. They must not issue any invitation to the public to subscribe for shares, debentures or other securities of the company. The majority of these companies are SMEs but there may also be larger private companies which have benefited from the non-transparent transfer of state assets to private control primarily through long-term leasing arrangements.

Small and Medium-sized Enterprises

32. **SMEs play a significant role in the Myanmar economy and comprised 87.17 percent²⁵ of business entities as of February 2015.** Many SMEs formally organize as companies to reduce the difficulties in obtaining licenses and permits. Given the importance of SMEs, the Government has declared its willingness to consider policy recommendations which will promote an entrepreneurial culture and create an enabling environment for these entities to develop.
33. **The recently enacted SME Development Law 2015 defines SMEs based on the number of employees, capital, and turnover across different sectors of the economy.** This definition differs from the definition of smaller companies that is used in the latest draft of the Myanmar Companies Law. The draft Myanmar Companies Law definition is based on the lowest amounts for employees (up to 30) and turnover (up to 50 million kyats) used in the SME Development Law.²⁶ The different definitions have the potential to cause confusion about the requirements that apply to SMEs.

2015 SME DEVELOPMENT LAW				
Sector	Categories	No. of Employees	Capital (Kyats in Million)	Turnover (Kyats in Million)
Small				
(a)	Manufacturing sector	Up to 50	Up to 500	
(b)	Labor intensive manufacturing sector	Up to 300	Up to 500	
(c)	Wholesale business	Up to 30		Up to 100
(d)	Retail business	Up to 30		Up to 50
(e)	Servicing business	Up to 30		Up to 100
(f)	Except from above business	Up to 30		Up to 50

(continues...)

24 Information supplied by the Directorate of Investment and Company Administration - Ministry of Planning and Finance on registered economic organizations as at 30 June 2016.

a.	Myanmar limited companies	48231
b.	Public companies	260
c.	Foreign companies/branches	5265
d.	Partnerships	1072
e.	Joint Ventures	84
f.	Association	124
	Total	55015

25 http://www.smedevelopmentcenter.gov.mm/?q=en/def_sme

26 This definition was based on suggestions received during the public consultation process on the draft Companies Law. The two criteria (employees and turnover) in the draft Companies Law can be increased or decreased by Ministerial notification.

2015 SME DEVELOPMENT LAW				
Sector	Categories	No. of Employees	Capital (Kyats in Million)	Turnover (Kyats in Million)
Medium				
(a)	Manufacturing sector	51 to 300	500 to 1000	
(b)	Labor intensive manufacturing sector	301 to 600	500 to 1000	
(c)	Wholesale business	31 to 60		100 to 300
(d)	Retail business	31 to 60		50 to 100
(e)	Servicing business	51 to 100		100 to 200
(f)	Except from above business	31 to 60		50 to 100

Financial sector institutions

34. **Financial sector institutions include Government-owned and privately-owned companies.** There is one commercial bank, that is a subsidiary of First Myanmar Investment Company Limited, which is a publicly listed company on the Yangon Stock Exchange.

Banks

35. **The banking sector in Myanmar consists of four State-owned banks and 23 non-State-owned banks that are referred to as private banks.** As of December 2015, nine foreign-owned banks had received a Myanmar banking license. The banking sector includes institutions that are either wholly or partially Government-owned, or non-Government-owned domestic and foreign institutions. Domestic banks in which the Government is not a shareholder include both private banks and public banks.²⁷

Finance companies

36. **There are currently 10 finance companies operating in Myanmar.** These finance companies mainly provide loans and leasing products. They are regulated by the Central Bank of Myanmar and fall within the scope of the Financial Institutions of Myanmar Law 1990.

Insurance companies

37. **The insurance sector was opened to the private sector in 2013.** Currently, there are 12 insurance companies in Myanmar including one State-owned insurance company. There are also approximately 25 foreign insurance companies which have representative offices in Myanmar. The insurance industry is still in a nascent stage and as a result, insurance products are limited, with private insurance companies mainly offering general insurance products rather than more complex insurance schemes.

Micro Finance Institutions (MFIs)

38. **The MFI sector comprises 168 MFIs of various sizes, of which five are international non-governmental organizations (INGOs), 24 are non-governmental organizations (NGOs), 28 are foreign companies, 107 are local companies, and four are joint venture companies.** While one MFI has national coverage, the remainder service limited geographical areas and are concentrated in urban regions. MFIs may extend micro loans without collateral, take deposits, carry out remittances, engage in insurance activities, borrow money, and carry out other financial activities at the grass-roots level. MFIs can also provide mobile banking services under some conditions, such as a capped transaction amount per day. The maximum loan size for an MFI is MMK 5,000,000.

²⁷ A public bank in Myanmar is defined as a private bank that has more than seven shareholders.

III. STATUTORY FRAMEWORK

39. **The statutory framework for enterprises in both the private and public sectors in Myanmar comprises a number of general and specialized laws.** The statutory financial reporting, audit and financial statement publication requirements for different types of enterprises are outlined below.

Companies

40. **Companies in Myanmar are incorporated under either the Myanmar Companies Act 1914 or the Myanmar Special Company Act 1950.** Those companies incorporated under the Myanmar Companies Act 1914 are required to finalize and present their audited financial statements to a general meeting of shareholders within nine months after the financial year end.²⁸ The Myanmar Company Act 1950 is very brief and, in essence, the financial reporting and audit requirements are determined by the President of the Union when he approves the articles of association of a company incorporated under this Act.
41. **The Myanmar Companies Act 1914 does not require that consolidated financial statements be prepared.** Section 132 A states that the latest audited financial statements of each subsidiary should be annexed to the audited financial statements of the holding company. This is unchanged in the new draft Myanmar Companies Law. However, because the new law requires that the MAC Law be complied with, which includes compliance with MFRS financial reporting requirements, consolidated financial reporting will be required once the new law is enacted.
42. **Every company incorporated under the Act, regardless of size, must be audited at least annually.**²⁹ For public companies a copy of the audited financial statements must be made available to all shareholders 14 days before the general meeting.³⁰ However, there is no legal requirement under the Act to publish financial statements for public companies. As a result, the publication of full audited financial statements in the public domain is not a common practice among public companies in Myanmar.
43. **There is no requirement under the Myanmar Companies Act 1914 to establish an audit committee and with the exception of listed companies, banks and some insurance companies, it is not a common practice.**³¹ Listed companies are required to have an audit committee comprising three non-executive directors under the Securities and Exchange Rules and Regulations. The Financial Institutions Law 2015 requires that

28 Section 131 of the Act requires that directors must present a company's balance sheet and profit and loss at a general meeting of shareholders at least once every calendar year.

29 Section 131 b states that the balance-sheet and the profit and loss account, or income and expenditure account, shall be audited by the auditor of the company as hereinafter provided, and the auditor's report shall be attached thereof, or there shall be inserted at the foot thereof a reference to the report, and the report shall be read before the company in general meeting and shall be open to inspection by any member of the company.

30 Section 131 c prescribes that every company other than a private company shall send a copy of such balance-sheet and profit and loss account, or income and expenditure account, so audited, together with a copy of the auditor's report, to the registered address of every member of the company at least fourteen days before the meeting at which it is to be laid before the members of the company, and shall deposit a copy at the registered office of the company for the inspection of the members of the company during a period of at least fourteen days before that meeting.

31 Section 132 of the new draft Act allows for the Board to delegate any of its powers to a committee of directors.

every Bank must establish an audit committee.³² One of the non-executive independent directors who is a member of the Board of Directors can be appointed to lead the committee. Management may not serve on the audit committee. The primary responsibilities of the audit committee are also defined as:

- Establishing appropriate accounting procedures and controls, supervising compliance with those procedures, and overseeing the audits of the bank's accounts and records;
- Monitoring compliance with laws and regulations and reporting to the Board of Directors; and
- Delivering opinions on matters submitted to it by the Board of Directors.

44. **Company auditors are appointed at the general meeting and, in some cases, the appointment requires the approval of the relevant regulator.**³³ The regulators do not have any established criteria for auditor suitability other than holding an MAC license. Company Directors often lack the necessary knowledge and expertise for the oversight auditor appointment, rotation, resignation and termination processes, executive remuneration, conflicts of interest, and related party transactions.
45. **The resignation or termination of a company's auditor needs to be announced to shareholders.** The outgoing auditor has the opportunity to brief the new auditor on any matters relevant to the audit assignment. However, there is no requirement to advise the regulators of the reasons for the auditor's resignation or termination.
46. **The new draft Myanmar Companies Law is expected to be enacted in 2017.** Part IV³⁴ Division 9 of the draft law details the financial reporting and audit requirements, which largely remain unchanged, although it does provide for some potential exemptions for smaller companies. However, as mentioned above, the draft law clarifies that the accounting standards to be used when preparing the financial statements, and the auditing standards to be applied by company auditors, must be in accordance with the requirements of the MAC Law 2015.
47. **The Securities Exchange Law 2013 provides the framework under which the Yangon Stock Exchange was established.** The associated regulatory framework for implementing the Law is still under development. This, along with the new Myanmar Companies Law, will be required in order to establish a robust regulatory and reporting framework that is aligned with international good practice.
48. **The Securities and Exchange Rules and Regulations require publicly listed companies and public companies to submit their audited financial statements to the Securities and Exchange Commission (SEC) annually by 30 June.** The Securities and Exchange rules 121 and 122 require publicly listed companies and public companies to submit semi-annual reports to the SEC annually by 30 December. The audited financial statements included in the annual report must be prepared in full compliance with MFRS and be accompanied by a statement of management discussion and analysis. The annual report must be made publicly available. This three-month deadline for submission of audited financial statements was largely driven by the requirements of the taxation authorities. There is a concern that this deadline may be difficult to achieve in practice, given the capacity constraints facing the preparers of financial statements and audit firms. However, the SEC has the discretion to extend the submission deadline if necessary.

³² Section 36 states that the audit committee must have three members appointed by the general meeting of shareholders for periods of four years and that it must meet every three months.

³³ The Stock Exchange rules and regulations require that the auditor of listed companies must have the prior approval of the Securities and Exchange Commission and must be appointed in accordance with the Myanmar Companies Act. Central Bank of Myanmar approval of auditor appointments is required for banks and finance companies. Financial Regulatory Department approval of auditor appointments is required for insurance companies. Where the Government has an ownership interest, approval of the Office of the Auditor General of the Union is also required.

³⁴ Titled "Management, Administration and Governance; Offers of Securities to the Public; Grant of Securities by a Company; Maintenance of Company Accounts".

49. **A continuous disclosure regime³⁵ has been established for investor protection.³⁶** This includes a requirement that an annual report be submitted for listed companies, public companies whose securities are traded on the over-the-counter market, and public companies which have more than 100 shareholders or have obtained approval of the SEC under sub section (a) of section 35 of the Securities Exchange Law.³⁷
50. **Companies incorporated under the Myanmar Special Company Act 1950 do not need to comply with the financial reporting and audit requirements of the Myanmar Companies Act 1914.** The Act states that they only need to comply with the provisions of the Myanmar Companies Act 1914 to the extent that the provisions are not contrary to their memorandum and articles of association, as approved by the President of the Union.
51. **All public companies must submit a copy of their audited financial statements, as adopted at the general meeting, to the Registrar.³⁸** The Directorate of Investment and Company Administration (DICA) manages company registrations for local and foreign businesses under the Myanmar Companies Act 1914. DICA also serves as a secretary to the Myanmar Investment Commission, which is the body responsible for investment applications.
52. **The enactment of the new Myanmar Companies Law, together with the Securities Exchange Law 2013 and the Financial Institutions Law, will enhance and modernize the statutory framework.** This has the potential to significantly improve the corporate governance, statutory financial reporting, audit and financial statement publication requirements through increased alignment with international good practice. However, as noted above, the rules and regulations which are crucial to the effective implementation of the Securities Exchange Law and Financial Institutions Law are still under development.

Small to Medium-sized Enterprises

53. **The new draft Myanmar Companies Law includes provisions that simplify the statutory financial reporting and audit requirements which apply to small companies³⁹ that are not a subsidiary of a public company.** These companies may be exempted from the statutory requirement for the appointment of auditors, filing of financial reports, and holding an Annual General Meeting. This is aligned with international good practice and is a sensible step for the reasons discussed in the 'Areas for consideration' section under the point on the need to establish a differential reporting framework.

Financial Institutions

54. **The Central Bank of Myanmar Law 2013 established an independent central bank in Myanmar.** The Central Bank of Myanmar (CBM) is the regulator and supervisor of the country's banks and finance companies. The law details the responsibilities of the CBM in the area of accounting and auditing. It also contains provisions governing the roles and responsibilities of audit committees, the publication of audited financial statements, and mandatory rotation of auditors for banks and non-bank financial institutions (NBFIs) subject to the law.⁴⁰

35 SEC Notification (1/2016).

36 Myanmar citizens are required to be the beneficial owners of shares in publicly listed companies. Foreign investors cannot currently invest in companies listed on the Yangon Stock Exchange.

37 Sub section (a) is concerned with initial public offerings (IPOs).

38 Section 225 Myanmar Companies Act 1914.

39 Small companies are defined as those with less than 30 employees with an annual revenue of the company and any subsidiaries of less than 50 million MMK.

40 Even though the enactment of the new law resulted in the repeal of the Central Bank of Myanmar Act 1990, the rules, regulations, by-laws, orders and directives issued under the repealed law will continue to remain in force until new implementing regulations are issued.

55. **The Financial Institutions Law 2016 requires that all financial institutions be established as limited liability companies.**⁴¹ The provisions of this new Law shall take precedence over the Myanmar Companies Act 1914 where there is a conflict. The CBM is empowered to issue regulations and directives on governance requirements, transparency and disclosure requirements and reporting requirements that are intended to provide detailed clarification of the Law. However, these regulations are still under development and have not yet been issued.
56. **All financial institutions are required to prepare consolidated financial statements annually and have them audited.**⁴² The audited financial statements are required to adequately reflect the operations and financial condition of the financial institution in accordance with internationally accepted accounting standards, as prescribed by the CBM. The audited financial statements need to be sent to the CBM within three months of the end of the financial year and be published in at least one widely read newspaper in Myanmar.
57. **The Micro Finance Business Law 2011 mandates that MFIs can be established under the Myanmar Companies Act, the Co-operative Societies Act, or the Law relating to the Formation of Associations.** MFIs are required to prepare a balance sheet and profit and loss account. Despite the Financial Institutions Law 2016 requiring all financial institutions to prepare their financial statements in compliance with IFRS, it is unclear what accounting standards should be applied for the preparation of MFI general purpose financial statements. There are prescribed formats for prudential reporting purposes to the regulator⁴³ that are partially based on IFRS. MFI financial statements must be audited in accordance with MSA and the appointment of the auditor is subject to the approval of the prudential regulator the Financial Regulatory Department of the Ministry of Planning and Finance.

State-Owned Economic Enterprises

58. **The State-Owned Economic Enterprises Act (1989) under which SEEs are established contains no provisions relating to statutory financial reporting or auditing.** Therefore, the requirements for statutory financial reporting, audit and publication of financial statements are determined by the type of entity that each SEE is. Those that have been corporatized need to comply with the provisions of the Myanmar Companies Act 1914 or the Myanmar Special Company Act 1950. Those that are not incorporated need to comply with the Government's Financial Management Rules and Regulations of Myanmar (FMRR) issued by the Ministry of Planning and Finance.
59. **The existing FMRR are out of date and are in the process of being revised.** The latest draft FMRR 2015, which have been circulated for discussion purposes, include relevant information on SEEs. Chapter 10 states that the Ministry of Planning and Finance will maintain a register of enterprises,⁴⁴ identifying those that are Non-commercial Enterprises, Subsidized Commercial Enterprises and Profit-making Commercial Enterprises.⁴⁵
60. **These distinctions are primarily based on the sources of funding for their operating activities.** Non-commercial enterprises are those SEEs that rely on funding from the State Budget Fund as their primary source of funding. Subsidized Commercial Enterprises are those SEEs that rely substantially on revenue from their Own-Fund market-based activities but that also plan to receive a subsidy from the State Budget Fund to cover any losses from those activities. Profit-making Commercial Enterprises are those enterprises that plan to make a profit from their Own-Fund as a result of their market-based activities and thus will not require a subsidy from the State Budget Fund.

41 The Financial Institutions Law 2016 covers the establishment of all banks and NBFIs, including branch offices of foreign-owned financial institutions, except those established under a separate law.

42 In the case of foreign owned branches, the financial statements will only reflect the Myanmar operations.

43 Prescribed Formats for Accounting and Reporting for Microfinance Institutions (2011) and the Microfinance Directives Volume 1 (2014).

44 Appendix II lists the SEEs as of September 2016.

45 We understand that Section 10 has been substantially revised in the latest draft version that is currently being circulated for comment within the Ministry of Planning and Finance Departments. We were advised this would not be made available to the Bank until this review process is completed.

61. **These distinctions are important in terms of the governance and accountability arrangements that should apply.** A key consideration is which SEEs should be deemed to be PIEs⁴⁶ as this status would normally come with a higher degree of public accountability and transparency (including full disclosure of their audited financial statements). Those entities that are ‘for profit’ would usually be corporatized, be subject to competitive market disciplines and have a degree of independence from political influence (e.g. have a Governing Body that comprises a non-executive Board of Independent Directors).
62. **Government policy is to improve the overall performance of SEEs with a view to corporatization and privatization of the ‘for profit’ entities, where appropriate.** From the 2012-2013 fiscal year, the Government has moved to make SEE management independent of their parent ministries and has taken a more market-oriented approach. However, relatively modest progress has been made with corporatization and privatization⁴⁷ to date. There remain significant corporate governance issues within the SEE sector.
63. **Another step taken by the Government has been the implementation of a ‘hard budget constraint’ by stopping the practice of State budgetary support to cover SEE losses.** Budgetary support (or subsidies) has been replaced by the provision of loans to cover the losses incurred. This step was taken to make SEE operational results more transparent, with those SEEs that incur recurring losses being targeted for restructuring and privatization.
64. **A key tool to promote improved SEE performance would be a requirement for higher quality financial reporting and increased transparency.** All public sector entities, including SEEs, currently follow ‘generally accepted accounting principles’.⁴⁸ The accounting standards applied do not fully comply with international good practice and the quality of SEE financial reporting is generally of a low standard. The audited financial statements do not provide a clear picture of the SEE’s financial position or financial performance (see the observations of the ROSC review team of the reviews of a sample of audited financial statements of SEEs in the section on ‘Compliance with accounting standards’). The audited financial statements of SEEs are not publicly available and access to this information is currently very limited.
65. **The distinctions (mentioned above in paragraph 60) between non-commercial, subsidized and profit making enterprises are also important in this context.** This is because the classification of each SEE will determine the accounting standards that they should comply with when preparing their financial statements. Those SEEs that are non-commercial enterprises (or public benefit entities)⁴⁹ should prepare their financial statements in compliance with International Public Sector Accounting Standards (IPSAS). Those SEEs that are ‘for profit’ entities should prepare their financial statements in compliance with MFRS.⁵⁰ Those SEEs that are

46 The definition of public interest entities differs across jurisdictions but they are normally defined as listed companies, credit institutions and insurance undertakings. In addition, some jurisdictions designate as PIEs other entities that are of significant public relevance, because of the nature of their business, their size, or the number of employees.

47 See earlier discussion on the Privatization Commission that was established to oversee the privatization process.

48 In the SEE context, generally accepted accounting principles means the existing double entry accounting procedures with some accrual entries incorporated in the financial statements. However, there are no accounting standards as such.

49 Public benefit entities are entities whose primary objective is to provide goods or services for the community, for social benefit or public security.

50 This is the medium-term intention. The draft Financial Management Rules and Regulations 2015 in paragraph 237 states: “In the absence of accounting standards promulgated by the Auditor General, in undertaking their internal accounting and reporting, the SEEs shall be guided by the International Financial Reporting Standards (IFRS) maintained by the International Accounting Standards Board.” Paragraph 238 also states that: “Where specific law regarding financial service institutions require specific accounting treatment for financial service operations such law shall take precedence over general application of public sector accounting standards for accounting by SEEs that are in the nature of a financial institution.”

subsidized commercial enterprises will need to determine whether or not they are primarily ‘for profit’ entities or ‘public benefit entities’.⁵¹

66. **The transition to the application of international accounting standards across the public sector will have major implications.** Significant capacity building will be required for preparers of financial statements, auditors and regulators to support a successful transition. It will be important that a properly prioritized and sequenced transition plan is prepared for both the core public sector agencies and SEEs.
67. **It is intended that those SEEs that are corporatized will be able to appoint private sector auditors.** The approval of the Office of the Auditor General of the Union will be required for SEE auditor appointments only if the SEE receives funding from the Government budget. It will be necessary to clearly establish which criteria will be used to determine whether the auditors have the appropriate skills and competencies to conduct SEE audits, as well as audit quality criteria to ensure the auditors are able to demonstrate that they can comply with ISA and ISQC1. It will also be necessary to determine what role, if any, the Office of the Auditor General of the Union will play in audit quality assurance oversight of SEE auditors.⁵² It will be very important that, where SEEs are subject to regulation by another regulator, these areas are properly aligned to avoid the potential for duplication and overlap.

⁵¹ This will also have implications for the decision as to which entities should be included within the definition of the Government Reporting Entity for preparation of the whole of Government consolidated financial statements when International Public Sector Accounting Standards are implemented.

⁵² According to the Auditor General of the Union Law and the decision by the Attorney General's Office, the Office of the Auditor General of the Union plays a role in audit quality assurance.

IV. THE PROFESSION

68. **MAC is the regulatory licensing body for the accountancy profession in Myanmar under the MAC Law 2015.** MAC is the only body that has the right to decide on policy matters relating to accounting. Its powers are broad and extensive, ranging from prescribing accounting, audit, and ethical standards, to investigative and disciplinary powers over members of the accounting profession.
69. **The Myanmar Institute of Certified Public Accountants (MICPA) was formed in 2003 as a non-governmental civil society.** It changed its legal status to become a not-for-profit association under the Myanmar Companies Act in January 2014. MICPA is Myanmar's PAO.
70. **There is a need to consider clarifying and separating the roles and responsibilities of the regulator and the PAO.** The MAC Law provides MICPA with a significant representation on MAC, as well as representation on its Working Committee. This means that there is a great deal of collaboration between the two organizations. MICPA does not currently operate independently of MAC.
71. **Chapter VI of the MAC Law confers a variety of duties and powers on MICPA.** These include the areas of education, certification, CPD, and dealing with grievances and complaints against members of the Profession. However, currently MICPA is not the decision-maker in any of these areas, as its role is to work in collaboration with MAC and to be an implementing body. There is scope in the legislation for MAC to delegate some of its responsibilities to MICPA.⁵³
72. **MAC and MICPA will require significant additional resources and capacity development.** Without adequate funding and resources, both MAC and MICPA will struggle to fulfill their mandates effectively. This could have a significant impact on the quality of services that are provided by the accountancy profession and the overall effectiveness of the regulatory regime in the public interest.
73. **MICPA only has around 600 members and is significantly under resourced.** It derives a considerable amount of its income through CPD activities, some of which are supported and delivered by international PAOs. It has a full-time staff of six, with only the CEO being a qualified CPA. Its office space is currently provided by the Office of the Auditor General of the Union in its Yangon training center.
74. **MICPA has signed agreements with several internationally recognized PAOs.**⁵⁴ The agreements are designed to assist MICPA with the development of its standards and practices, improve its capacity, and better serve its members and the public interest. MICPA has also begun discussions with IFAC about becoming an associate member and is working towards achieving compliance with IFAC's Statements of Membership Obligations.

⁵³ Article 19 states that: "The Council may carry out the following as regards the MICPA:

(c) assigning the Institute to carry out a certain piece of work or a certain matter on behalf of the Council."

⁵⁴ These agreements include the following PAOs: the Institute of Chartered Accountants in England and Wales (ICAEW); the Japanese Institute of Certified Public Accountants (JICPA); and the Chartered Institute of Management Accountants (CIMA).

75. **MAC is responsible for prescribing the curriculum for the CPA designation.** It oversees the examinations, work experience, and CPD for accountants in public practice. MAC is also responsible for relations with foreign PAOs, including the assessment of foreign qualifications; as well as for approving and overseeing private training providers who prepare students for the CPA examinations.
76. **The MAC Law establishes different levels of qualification.** These levels are:
- A Certified Public Accountant (Pass) is a person who has passed both Part I and Part II exams of the Certified Public Accountant course; and
 - A Certified Public Accountant (Full-fledged) is a person who, in addition to passing both Part I and Part II exams, has completed the mandatory period of apprenticeship (three years' practical experience).
77. **Formerly the completion of a Bachelor of Commerce or Bachelor of Accounting degree from one of the recognized universities was a prerequisite for both levels of CPA designations.** More recently any graduate holding a Diploma in Accountancy (DA) has been admitted to the CPA program and currently any graduate may apply for CPA admission. Article 41 of the MAC Law also provides that MAC may recognize as a Certified Public Accountant (Pass), or Certified Public Accountant (Full-fledged), a Myanmar citizen who holds any one of the foreign degrees or certificates in Accounting recognized by MAC. Currently the following foreign designations are recognized ACCA, CIMA, CPA Australia, and the Institute of Singapore Chartered Accountants (ISCA).
78. **Once an individual has received the Certified Public Accountant (Full-fledged) certificate, they are then recognized as a "Professional Accountant".** This allows them to register with MAC:
- To practice accounting, in which case they become a "Practicing Accountant";
 - To practice public accounting (referred to as "public sector accounting" in the MAC Law) which incorporates the provision of audit services and other assurance related services.
- All accountants registered with MAC are required to pay a small registration fee. They must also comply with CPD requirements (120 hours over three years), professional accounting ethics rules, and accounting services ethical regulations and standards.
79. **In accordance with its Articles of Association, MICPA can admit into membership any Certified Public Accountant registered with MAC.** The current legislation requires all CPAs working in Myanmar to be members of MICPA. However, this can only be enforced for those CPAs who seek to obtain or renew a license to practice. After obtaining recognition as the national PAO, MICPA is planning to change its Articles of Association to include different categories of membership.
80. **Promoting the local CPA designation as the qualification of choice for both students and employers is important.** A significant requirement to achieve this goal will be to ensure that the local CPA qualifications are internationally recognized (through exemption and mutual recognition agreements). The potential mobility offered by the accounting qualification is often a key factor for young graduates when deciding which accounting designation to pursue. This could, of course, also result in an increased risk of net outflow of professional talent should CPAs choose to pursue opportunities in other countries.
81. **There are currently over 4,500 Myanmar CPAs, including 1,500 employed by the Government, 1,500 working in the private sector in Myanmar, 500 retired, and over 500 living overseas.** According to MAC's records, as at 31 August 2016, there were over 500 CPAs with a license to practice in Myanmar.⁵⁵ The total number of accounting professionals and their qualification levels are as follows:

⁵⁵ 68 Sole Proprietorships, 9 Partnerships, 14 Company incorporated and 535 Public Practicing Accountants.

Qualification	Number
DA Part I Passed	8,100
DA Part II Passed	4,435
CPA Part I Passed	2,933
CPA Part II Passed	2,232

82. **Myanmar CPAs typically work in private companies or in accounting and auditing firms.** The number of CPAs within the core public sector and SEEs is low. The inability of the Government to provide competitive salaries is cited as the main reason for this.
83. **The large international audit firms all established a presence in Myanmar between 2011 and 2013, and a few international mid-tier firms have also followed suit.** Most foreign accounting firms operate independently for the provision of advisory services. Only national accountancy firms are currently allowed to carry out audit and assurance services as prescribed by the MAC Law.⁵⁶
84. **There are a number of local audit firms which have associations with international audit firm networks.** However, it is unclear whether any of these local firms are full member firms. This status would usually provide the right to use proprietary audit methodologies, access to full technical and training support, and participation in the firm wide quality assurance processes.
85. **The benefits of allowing foreign practitioners to gain MICPA membership and to provide audit services in Myanmar deserve careful consideration.** It would assist in building MICPA's membership base if it were associated with a requirement for foreign practitioners to become MICPA members. Clearly all foreign applicants should be required to demonstrate a full understanding of Myanmar Commercial Law and Taxation Law by passing a written examination.
86. **Allowing foreign audit firms to operate in their own names would also offer potential benefits.** The major international audit firms have significant resources and may be willing to facilitate capacity development. It would also likely result in a more rapid improvement in audit quality and perhaps, more importantly, it would make a career in auditing more attractive to local graduates by offering enhanced opportunities for career progression within an international audit firm network.

⁵⁶ Only Myanmar citizens are currently able to be licensed to provide audit services.

V PROFESSIONAL EDUCATION AND TRAINING

87. **The landscape of higher education in Myanmar owes much of its current shape to the priorities of the former regime.** Between 1988 and 2000, universities in Myanmar's major cities were closed or relocated to remote areas, while Yangon and Mandalay Universities had their undergraduate programs discontinued. The current geographical spread of universities throughout the country is the result of these actions. Only four universities in Myanmar have over 10,000 students.
88. **Higher education is centralized to a large extent, with curricula, syllabi and textbooks determined by government committees.**⁵⁷ Budgets and funding are also determined centrally. Despite this, there is no national curriculum or minimum requirements for accountancy programs and at least in principle, universities have a high level of autonomy to determine the structure and content of their curricula.
89. **There is still a lack of consistency as responsibility for higher education is spread across 13 different ministries.** Most institutions fall under the authority of the Ministry of Education, and this is the case for the leading public universities offering Finance and Accounting degree programs. There are no university entrance exams. Yangon University may implement an entrance examination next year for some specializations, including Accountancy, due to the increasing number of applications.⁵⁸
90. **Government spending on education has increased significantly in the past few years, but remains low by international standards.** Higher education institutions receive almost their entire budget from the Government; the fees they charge are very low, making up a negligible part of their budgets.⁵⁹ Private institutions depend solely on student fees and are sufficiently expensive to exclude all but the wealthy. Financial support for students is almost non-existent as there are no loan schemes and very few scholarships are available.
91. **Students' choices are limited early in their academic careers by the requirement to choose an arts or science pathway before entering high school.** This then determines which subjects will be open to them at the tertiary level. A student's academic direction is then determined by his/ her results in the matriculation exam, an obstacle that puts poorer students at a considerable disadvantage. The exam tests two years' worth of course content in a single exam and is mainly passed by students who have been coached by private tutors. A low matriculation result denies a student access to higher education altogether, while lower pass marks limit them to distance learning.⁶⁰
92. **As a result, distance learning is a significant element of Myanmar's higher education system and is offered via correspondence or via the Internet.** Another factor behind the growth of distance learning is the

57 "Higher Education case studies – Myanmar" The Economist Intelligence Unit Limited 2014.

58 Over the last three years, between 75 and 85 percent of the applications for Yangon University Accountancy and Auditing programs have been received from female applicants, with the total number admitted averaging approximately 300 local students.

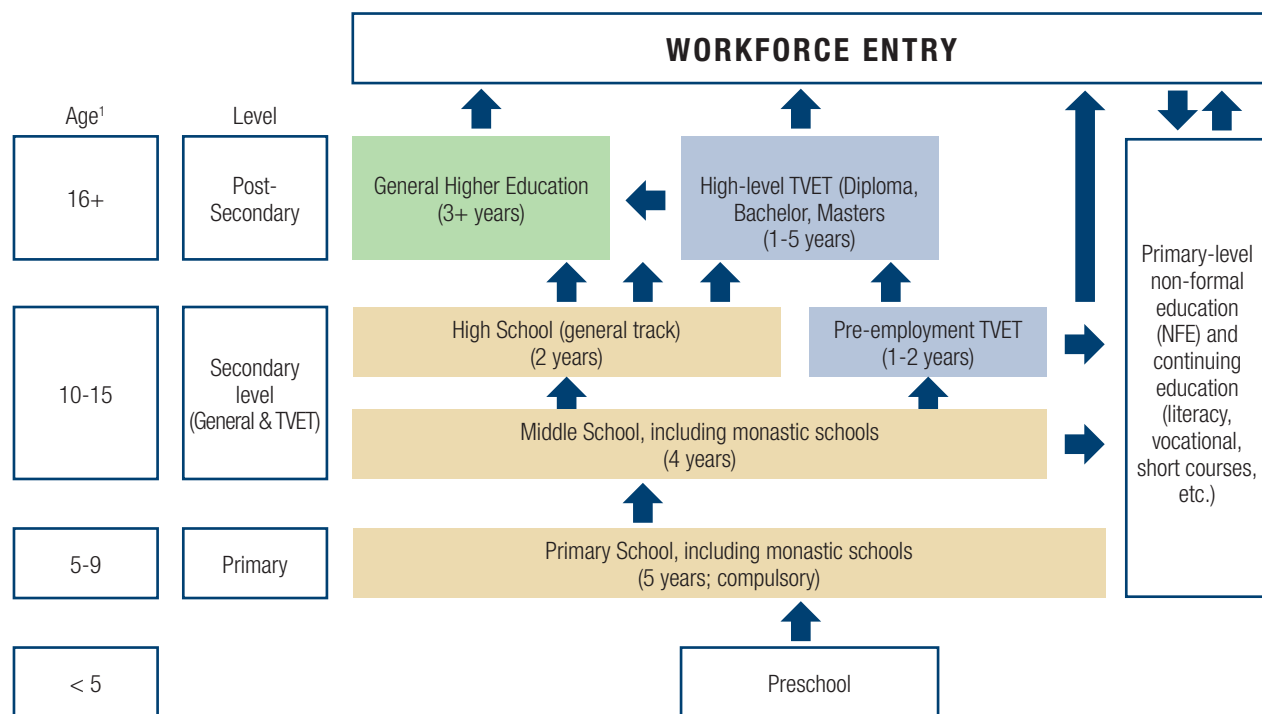
59 Ibid 57

60 The only alternative option for students who fail to score highly enough in the matriculation exams to physically attend a university is to undertake distance learning via correspondence courses or via the internet.

fact that new universities or campuses are built in areas that lack residences for students, resulting in prohibitive transportation costs for many. Around 300,000 students (over half of the student population) are currently enrolled in distance learning courses.⁶¹ Predictably, qualifications obtained through distance learning are often poorly regarded by employers.

93. **The rote learning, which characterizes teaching in almost all institutions, does not lend itself to the development of critical thinking skills.** Academic staff in Myanmar are not expected to conduct research as part of their role, as this was previously discouraged by the Government. Only 425 papers from the country were published internationally between 2000 and 2011, compared with 38,500 from Thailand in the same period.⁶² However, the Government is beginning to see research as desirable, and has started to establish so-called Centers of Research Excellence within some universities.
94. **Interaction between universities and the private sector requires strengthening.** Teachers rarely have practical industry experience and there are very limited opportunities for employers to influence course content. While most university faculty members hold post-graduate degrees, more than 90 percent have obtained their degrees from universities in Myanmar,⁶³ with only a few having post-graduate degrees from abroad. Due to low salaries, public universities have difficulty retaining skilled and experienced academic personnel.

SCHEMATIC DIAGRAM OF THE MYANMAR EDUCATION SYSTEM



Key: Gold represents Basic Education (general track), blue is TVET programs and green is programs at higher education institutions.

Note: (1) Age refers to norm for expected age at the start of the academic year (June).

Source: Initial Assessment of Post-Primary Education (PPE) in Myanmar: Discussion Paper, Asian Development Bank, August 2012.

61 Thet Lwin (2013), "Higher Education in Myanmar", CESR, URL: <http://www.cesrmm.org/index.php/en/documents/category/20-higher-education?download=11:cesrphase1highereducation-backgroundinformationreport>

62 Ibid 57

63 "Initial Assessment of Post-Primary Education (PPE) in Myanmar: Discussion Paper, Asian Development Bank, 2012, URL: <http://www.adb.org/documents/initial-assessment-post-primary-education-ppe-myanmar-discussion-paper>

95. **Training materials tend to be limited to one official library copy which cannot be photocopied due to copyright.** Lecturers tend to prepare abbreviated notes as handouts for students. Past examination questions and model answers, which are not subject to copyright, are photocopied and distributed to students. The shortage of good quality training materials is largely due to affordability.
96. **Poor facilities, obsolete course content, theory-centric teaching, and a lack of funding affect all universities.** Yangon University and Mandalay University are widely seen as the two leading institutions in Myanmar, as they have better-qualified teaching staff⁶⁴ and links to universities overseas. In a country dominated largely by informal working arrangements and employment of family members and casual laborers, there have been few professional roles for graduates, until very recently.⁶⁵ Although this is changing, employers struggle to find suitable candidates for existing vacancies, as graduates are poorly trained and lack suitable skills.
97. **There are six public universities in Myanmar that offer degrees in Accounting and Finance.** There are also several private higher education institutions offering courses in Accountancy, but their qualifications are not recognized as degrees by the Government. These private institutions are, however, able to offer preparatory courses for foreign examinations and qualifications including the ACCA Program for which some Myanmar graduates can receive several exemptions, the Chartered Institute of Management Accountants, UK (CIMA) Program, the Institute of Commercial Management, UK (ICM) Program, and the qualification offered by the London Chamber of Commerce and Industry (LCCI). The LCCI qualification is very popular in the region, but is not recognized by any of the leading international PAOs.⁶⁶
98. **The ACCA Program is one of the most popular of the foreign qualifications.** As discussed above in paragraph 84, under the MAC Law overseas accountancy qualifications do not give public practice rights in Myanmar.⁶⁷ However, Myanmar citizens holding overseas accountancy qualifications are allowed to be Myanmar CPAs after passing a qualifying test in three subjects – business law, taxation and auditing.
99. **The Yangon University of Economics is the leading university that issues degrees leading to a career in accountancy in Myanmar.** It has been offering a Bachelor of Commerce Program for over 50 years, and a Bachelor of Accounting for over 10 years.⁶⁸ The University offers Undergraduate Degree Programs in Economics, Commerce, Statistics, Public Administration, and Business Administration. It also offers several Graduate Diploma and Master's Degree Programs. The duration of Undergraduate Degree Programs is four years.⁶⁹ Examinations are set in English and the pass rate is around 80 percent. Over 2,000 graduates are produced by these programs every year.
100. **Until recently, only a small portion (around 150) of the graduates achieving the highest grades, majoring in Commerce or Accountancy, were eligible to pursue the Professional Qualification Program (PQP).** The PQP is overseen by MAC, and administered in conjunction with MICPA. In 2014, entry routes were liberalized and the number of students accepted increased significantly to over 700. This was achieved by introducing an entrance examination. However, the pass rate fell partly due to a lack of teaching capacity. Accountancy remains largely a graduate profession and the majority of entrants come from the three universities mentioned earlier.

64 The number of teaching staff for accountancy and auditing programs at Yangon University is 37. All are local full-time staff with only one male staff member.

65 Yangon University graduation rates have averaged between 85 to 90 percent over the last three years.

66 The LCCI examinations are hosted by the British Council across the country.

67 Myanmar citizens who hold the ACCA designation can be recognized after passing the CPA examination requirements.

68 The other two public universities offering comparable degrees are the Monywa University of Economics and the Meiktila University of Economics.

69 Current legislation does not mandate the duration of University Degree Programs.

101. **The current syllabus of the PQP is based on 12 examinations and a two-year curriculum which was introduced several years ago.** It underwent a minor review in 2013 but it is relatively old fashioned and has fallen behind international standards and benchmarks. The syllabus appears to have been developed as a set of examination papers, rather than through a design process guided by the learning outcomes expected for a professional accountant.
102. **The absence of information on competence and learning outcomes means that the examination papers inevitably result in the assessment of knowledge, rather than the assessment of skills and application.** Anecdotal evidence of the weakness of the CPA qualification is provided by the fact that students who graduated from one of the leading Undergraduate Degree Programs receive four exemptions out of 14 ACCA papers, while being CPA qualified only adds a further two exemptions.
103. **MAC currently employs staff, including examiners, to manage the training and examination process.** It has training centers in Naypyidaw and Yangon. Most MAC lecturers are voluntary or on nominal pay rates. Once a graduate has successfully completed the examination papers, he or she will have achieved the level of a “CPA Pass”. After attaining three years of professional experience, the graduate can become a full-fledged CPA (Practicing Accountant).
104. **Current resources have not allowed for the development of a framework for the assessment of skills and competencies acquired during the professional experience period.** As mentioned previously, this is further hampered by the shortage of training places available with employers who can provide the training and mentoring required.
105. **A revised PQP was developed by the Institute of Chartered Accountants in England and Wales (ICAEW) and published in 2015, after consultations with a wide range of stakeholders.** This includes up-to-date learning materials and full alignment with current international benchmarks and best practices. The adoption and implementation of the revised PQP is pending MAC approval and is currently only being used as reference material.
106. **There is also a two-year Diploma of Accounting qualification.** This was intended to broaden entry access to the accounting profession and is offered to those students who are not accepted onto the CPA program. While the Diploma has provided an alternative pathway to the CPA designation for a small number of students,⁷⁰ it does not give its holder any practice rights or privileges. As a result, it is not effectively serving the purpose of providing broader entry access into the profession.
107. **Consideration should therefore be given to introducing a one-year program for graduates from other disciplines, as recommended by the ICAEW.** The lower level of PQP could replace the current Diploma of Accounting qualification and provide the basis for the establishment of an accounting technician level professional qualification. Given the current capacity constraints, developing a strong cadre of well qualified accounting technicians will be very important.
108. **Improving the standard of the PQP will also require that the University Degree Programs be upgraded.** This can only be achieved through a significant amount of resources being devoted to “retraining” university teaching staff. The teaching staff interviewed by the ROSC team are keen to acquire the knowledge and competencies required to enable them to deliver higher quality education in finance and accounting subjects so as to meet the current needs of the accounting profession. The Yangon University of Economics has begun

70 There were close to 800 entrants to the Diploma of Accounting course in 2014.

the process of upgrading its curriculum accordingly with assistance from the Association of Certified Public Accountants.

109. **MAC has a mandatory CPD requirement of 40 hours per annum.** This is only formally monitored for those CPAs who are in public practice and renew their license to practice annually. Enforcement of CPD needs to be extended to all members, not only those seeking to renew their practice license.
110. **CPD courses are mainly provided by MICPA and the Commerce Graduate Association monthly.** Weekend CPD courses typically attract 400 professional accountants; weekday courses only 100. With limited resources and staff, MICPA has relied on some of its local and international partners to deliver CPD seminars.

VI. ACCOUNTING STANDARDS

Standard Setting

111. **MAC has the statutory responsibility for setting accounting, auditing and ethical standards.** MICPA acts as an advisory body to MAC. MAC promulgated the MFRS and MFRS for SMEs, effective 2010. These standards are identical to IFRS and IFRS for SMEs as published in 2009. Currently MAC/MICPA are in discussions with the IFRS Foundation for the adoption of IFRS, with notification to be published in the Government Gazette. A copyright waiver will be signed to ensure that access to IFRS is broadly available.
112. **Myanmar uses the English version of the international standards.** MAC does not seek official translations of the standards into the Myanmar language due the cost and resources required to maintain high quality translations. Unofficial translations will likely be used for training purposes.
113. **The accounting standards for the public sector are currently based on generally accepted accounting principles.** As discussed in the Statutory Framework section, these standards cover the core public sector agencies and SEEs. The intention is to transition the core public sector to full compliance with IPSAS on a cash basis. Those SEEs that are ‘for profit’ entities will be required to transition to preparing their financial statements in full compliance with MFRS.

The Standards Gap

114. **There have been no updates to MFRS regarding changes to existing standards or for new IFRS issued since the 2009 version.** As a result, the following Standards are not yet incorporated into MFRS:
- IFRS 10 Consolidated Financial Statements;
 - IFRS 11 Joint Arrangements;
 - IFRS 12 Disclosure of Interest in Other Entities;
 - IFRS 13 Fair Value Measurement;
 - IFRS 14 Regulatory Deferral Accounts;
 - IFRS 15 Revenue from Contracts with Customers;
 - IAS 28 Investment in Associates and Joint Ventures in the case of MFRS for SMEs.
115. **IFRS 9 Financial Instruments has progressively replaced IAS 39 Financial Instruments: Recognition and Measurement.** Those sections of IFRS 9 relating to the classification and measurement of financial assets became operative in 2009. Those sections relating to the classification and measurement of financial liabilities became operative in 2010; they are largely consistent with IAS39, which has been applied since 2003. There is therefore no standards gap.
116. **There have been no updates to MFRS for SMEs for changes made since the 2009 version.** A revised version of IFRS for SMEs was released in 2015, effective from 1 January 2017.
117. **The intention to transition the ‘for profit’ SEEs to preparing their financial statements in full compliance with MFRS is in accordance with international good practice.** It is important that the full implications of this change are well understood at the outset. The magnitude of the change is significant and it is likely that it

will take several years to complete. Proper planning for implementation of the transition will be essential and a properly prioritized and sequenced transition plan needs to be developed.

PUBLIC SECTOR ACCOUNTING AND AUDITING

The Ministry of Planning and Finance and the Office of the Auditor General of the Union intend to transition government accounting into compliance with international accounting standards. This would see the core central government agencies being required to prepare their financial statements in compliance with International Public Sector Accounting Standards (IPSAS) initially on a cash basis.

The core public sector currently uses a 'single entry' modified cash based accounting system. The intention is to implement IPSAS on a cash basis and move to a double entry accounting system (as a stepping stone to a transition to full compliance with IPSAS on an accrual basis at some time in the future) for the core public sector agencies. This is a sensible step towards modernization of the Government accounting system.

The Office of the Auditor General is modernizing public sector auditing standards. They are currently in the early stages of working towards compliance with the level four financial audit guidelines – ISSAI – with capacity development assistance from development partners.

The Compliance Gap

118. **MAC made the decision to adopt MFRS and MFRS for SMEs in 2009 but did not develop a transition plan to guide and support the implementation of the new standards.** It is therefore perhaps not surprising that the actual implementation of the requirements of the standards has, in practice, only been successful to a limited extent.
119. **There is a major compliance gap between the requirements of the accounting standards and actual practice across all types of enterprises.** This appears to be a reflection of a lack of understanding by preparers of financial statements, auditors and regulators of:
 - i. the different objectives of general purpose financial statements versus financial information prepared for prudential reporting purposes or taxation purposes; and
 - ii. accounting standards (MFRS or MFRS for SMEs) that should be applied by different types of enterprises.
120. **General purpose financial statements are for public accountability purposes and should be prepared in full compliance with the accounting standards (MFRS or MFRS for SMEs).** Prudential financial reporting requirements are for prudential regulatory purposes only and should not be used as a substitute for the accounting standard requirements. Similarly, specific accounting treatments required by the taxation authority should only be used for the calculation of an enterprise's taxation position and taxation expense.
121. **The compliance gap also reflects the capacity constraints that the accounting profession is currently facing.** There is a lack of experience and expertise in the practical application of MFRS and MFRS for SMEs. This is evident from the observations of actual practice outlined below, particularly in areas where professional judgment is required or where the regulatory or taxation requirements are different to the accounting standards requirements.
122. **The ability of users of the financial statements to make meaningful comparisons is adversely impacted.** The inconsistencies in accounting treatments and disclosures that were identified make meaningful comparisons

of the financial position, financial performance and management of risks within sectors and across enterprises very difficult. This applies to comparisons between enterprises in the private versus the public sector and between enterprises within the same sector or industry.

123. **The audited financial statements for three State-owned financial institutions and a major SEE in the oil and gas sector were reviewed.** All these enterprises would meet the criteria to be considered as PIEs and would be classified as ‘for profit’ entities. Under international good practice this would mean that these enterprises would be required to prepare their financial statements in full compliance with MFRS and meet a high standard of public accountability and transparency.
124. **The audited financial statements of these SEEs consisted of a balance sheet and income statement.** The audited financial statements would have been prepared in accordance with the current accounting standards for SEEs, which are based on ‘generally accepted accounting principles’.⁷¹ However, based on reading the financial statements provided, it was not possible to determine any details about the accounting standards applied as they did not include statements of accounting policies, notes to the financial statements or audit reports.⁷² The lack of information provided in the financial statements made it infeasible to ascertain whether they provide a fair view of the enterprise’s financial position or performance or how it manages its risk exposures.
125. **The audited financial statements were below the international good practice standard for PIEs.** They do not fully meet the objective of financial reporting, which is the provision of financial information about the reporting entity that is useful to owners, existing and potential investors, lenders and other creditors in making decisions about the provision of resources to the entity.
126. **Several common areas of non-compliance were observed in the non-SEE audited financial statements (details are provided in Appendix I).** Many of the audited financial statements were not in full-compliance with the important disclosure requirements that allow the reader to gain an understanding of the nature of the business, the accounting policies and accounting treatments applied by an entity.
127. **The audited financial statements of the financial institutions reviewed contained disclosures that were often not fully transparent about risks faced by the entities (detail is provided in Appendix 1).** They were often not specific enough to comply fully with the requirements of MAS 32 Financial Instruments Presentation, MAS 39 Financial Instruments: Recognition and Measurement, MFRS 7 Financial Instrument Disclosures and MFRS 4 Insurance Liabilities.
128. **The audited financial statements of the SMEs reviewed showed a high degree of inconsistency in the quality of the information provided and in the accounting standards applied.** Some SMEs applied MFRS, others applied MFRS for SMEs, while it was unclear which standards were applied for the remainder. This appears to reflect a reasonably widespread misunderstanding about which accounting standards SMEs should apply in the preparation of their financial statements.
129. **The common areas of non-compliance with accounting standards by SMEs were similar to those discussed above.** The information on accounting policies was generally poor and in some cases there was no information about the accounting policies for key business transactions. The statements of

71 In the SEE context, generally accepted accounting principles mean the existing double entry accounting procedures, with some accrual entries incorporated in the financial statements. However, there are no accounting standards as such.

72 The fact that audit reports were not included was likely due to a lack of understanding by the SEEs of what audited financial statements normally comprise.

cash flows often failed to provide information classified by operating, investing and financing activities, as required by the accounting standards. Related party disclosures were often insufficient, and the financial statements were usually prepared in accordance with the taxation authority rules rather than the accounting standards.⁷³

⁷³ For some of these SMEs the approach to taxation is probably appropriate. See the recommendation on the need to establish a proper differential reporting framework in the 'Areas for consideration' section.

VII. AUDITING STANDARDS

Standard Setting

130. **MAC adopted the International Standards on Auditing (as MSA), the International Standard on Quality Control (as MSQC1) and the IFAC Code of Ethics in 2009.** All three became effective from 2010. MSA, MSQC1 and the IFAC Code of Ethics are identical to the international standards published in 2009.
131. **Myanmar uses the English version of the international standards.** MAC does not plan to seek official translations of the standards into the Myanmar language due the cost and resources required to maintain high quality translations. Unofficial translations are likely to be used for training purposes.
132. **The Office of the Auditor General of the Union applies generally accepted auditing standards in Myanmar to the audits of all entities under its mandate.** This includes core public sector agencies and SEEs.

The Standards Gap

133. **There have been no updates for new standards issued since 2009, although Myanmar is likely to adopt the latest version of the clarified ISAs in 2017.** This therefore means that the following ISAs have not been adopted by Myanmar:
- ISA 260 (Revised) Communication with those charged with Governance
 - ISA 315 (Revised) Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment
 - ISA 570 (Revised) Going Concern
 - ISA 610 (Revised) Using the Work of Internal Auditors
 - ISA 700 (Revised) Forming an Opinion and Reporting on Financial Statements
 - ISA 705 (Revised) Modifications to the Opinion in the Independent Auditor's Report
 - ISA 706 (Revised) Emphasis of Matter Paragraphs and other Matter Paragraphs in the Independent Auditors' Report
 - ISA 701 Communicating Key Audit Matters in the Independent Auditor's Report
 - ISA 720 (Revised) The Auditors' responsibilities Relating to other Information

Conforming amendments have been made to ISQC 1 and several ISAs affected by the above revisions to the standards.

134. **The changes since 2009 are significant, with important developments in the way a quality audit should be conducted.** This has a direct relationship to driving improvements in the standard of overall corporate governance, accountability and transparency.
135. **The recent changes to ISA with respect to the form and content of the audit reports of publicly listed entities is particularly important.** The International Auditing and Assurance Standards Board (IAASB) released these new and revised reporting standards to ensure that auditors' reports for investors and other users of financial statements are enhanced significantly. Auditors of listed entities' financial statements are required to

communicate “key audit matters” which the auditor views as most significant, with an explanation of how they were addressed in the audit.

136. **The new and revised ISA standards⁷⁴ will become effective for audits of financial statements for periods’ ending on or after December 15, 2016.** The auditor’s report is the key outcome of an audit and the document upon which regulators, lenders, creditors, and institutional investors rely to assess the credibility of the related financial statements or to alert them to issues that warrant further attention and follow up.
137. **The IFAC Code of Ethics has also been revised since 2009.** The current version reflects the strengthened independence requirements of the revised IESBA Code and includes strengthened provisions regarding management responsibility, breaches of any of the Code’s requirements, and conflicts of interest. It also includes a revised definition of “those charged with governance” revisions to exceptions, and guidance on the provision of non-audit services to clients.⁷⁵
138. **These changes are significant as they provide new international good practice benchmarks for members of the accounting profession to meet.** They also have a direct relationship to improving the standard of corporate governance and ensuring auditor independence.

The Compliance Gap

139. **It is difficult to fully assess the application of auditing and ethical standards by external auditors without having access to their audit working paper files.** The observations about the compliance gap and the quality of the audit processes are therefore made based on the review of a sample of audited financial statements and discussions with stakeholders.
140. **The majority of audit firms, with the exception of some larger firms, are not complying fully with auditing and ethical standards.** As illustrated by the observations from the review of audited financial statements in the previous section, there appears to be a significant variation in audit quality. All of the audit reports in the sample of financial statements reviewed were unqualified, despite there being cases of non-compliance with accounting standard requirements. While the ROSC team saw no instances in the sample of audited financial statements reviewed, we were informed that audit reports are sometimes qualified or include a disclaimer of opinion in relation to financial statement non-compliance with MFRS, or the inability to conduct the audit in full compliance with MSA.
141. **There are differences in the technical proficiency, levels of experience, and levels of resources available across audit firms.** The larger audit firms may have purchased or developed international audit practice manuals that are MSA compliant.⁷⁶ Smaller audit firms however, are unlikely to have MSA compliant audit methodologies or audit programs. It is therefore difficult for them to deal with important concepts such as audit risk, audit planning, internal control, materiality, documentation, and going concern.
142. **MICPA can potentially play a key role in capacity building for auditors.** This could be through:
 - Designing training programs and developing audit tool kits for auditors;

⁷⁴ The complete set of new and revised standards consists of: ISA 700, *Forming an Opinion and Reporting on Financial Statements*; ISA 701, *Communicating Key Audit Matters in the Independent Auditor’s Report*; ISA 570 (Revised), *Going Concern*; ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor’s Report*; ISA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor’s Report*; ISA 260 (Revised), *Communication with Those Charged with Governance*; and *Conforming Amendments to ISAs 210, 220, 230, 510, 540, 580, 600, and 710*.

⁷⁵ www.ifac.org

⁷⁶ It is unclear whether any of the larger local audit firms affiliated with international audit firm networks have been able to obtain full access to the international firm’s audit methodologies or whether they are subject to the internal audit quality assurance processes.

- Facilitating local audit firms' access to improved audit methodologies, systems and procedures for audit; and
- Developing opportunities for on-the-job training for local audit firm staff.

However, as discussed above, MICPA would require technical and financial support to train auditors on the practical application of MSA, MSQC 1, and IFAC's Code of Ethics. It would also potentially need assistance to provide smaller audit firms with an Audit Procedures manual, together with training in its use.

143. **Audit quality is threatened by unrealistically low fees.** Stakeholders indicated that some directors and others charged with governance responsibilities often fail to appreciate the purpose and value of an external audit adequately. They therefore focus primarily on minimizing the “cost and disruption” of what they perceive merely as a compliance requirement. Many SMEs, in particular, do not see any benefits from the audit process and are therefore reluctant to pay higher audit fees for a good quality audit.⁷⁷ This environment has resulted in unrealistically low audit fees, which reduces audit quality as auditors seek to lower costs.
144. **Audit firms are not generally covered by professional indemnity insurance.**⁷⁸ Even if professional indemnity insurance was available locally, insurance companies would likely charge a high premium where they had concerns about the level of risk attached to the local audit market.
145. **Independence of auditors is not always fully observed.** The lack of understanding of the role of an external audit and auditor's responsibilities, along with a lack of capacity at the entity level, often result in preparers of financial statements expecting substantial assistance from auditors in their preparation. This situation can threaten a basic tenet of external auditing that auditors should not compromise their independence by reporting on their own work.
146. **The Office of the Auditor General of the Union currently conducts financial audits for the SEEs.** These audits are conducted in compliance with the current generally accepted auditing standards in Myanmar. As discussed previously, the Office of the Auditor General of the Union is in the early stages of moving towards implementation of the level 4 financial audit requirements of the International Standards of Supreme Audit Institutions (ISSAIs).⁷⁹ As such, the current financial audits are not being conducted in full compliance with international good practice.
147. **The SEEs audited by the Office of the Auditor General of the Union include a number of enterprises that would likely be deemed to be PIEs, including the state-owned banks and the state-owned insurance company.** Audits of PIEs, particularly financial institutions, are complex and require specialist expertise. It will therefore be important that consideration is given to the current capacity of the Office of the Auditor General of the Union (OAGU) and how to ensure that high quality audits are conducted for these SEEs.
148. **The intention is that those ‘for profit’ SEEs that are corporatized will be able to appoint private sector auditors to conduct their audits.** While this approach is sensible, there will nevertheless need to be careful

77 This is not unique to Myanmar and provides further support for the development of an appropriate audit exemption regime for smaller companies, as outlined in the new draft Myanmar Companies Law.

78 Some local audit firms may have obtained indemnity insurance overseas.

79 Technical assistance for financial audit guideline development is being financed by the Asian Development Bank. The Office of the Auditor General of Norway has also entered into a Memorandum of Understanding to assist the Office of the auditor General of the Union to develop various ISSAI based audit guidelines. Once these guidelines have been approved they will be used in the conduct of the audits of government organizations.

consideration given to the competency and expertise criteria that will be used to select the private sector audit firms. The role of the OAGU in approving the auditor's appointment will also need to be decided.⁸⁰

149. **There will also need to be agreement on what role, if any, the Office of the Auditor General of the Union will play in the audit quality assurance process for these audits.** In order to avoid overlap and duplication it will be important that there is collaboration with the regulatory body responsible for audit quality assurance. Given the capacity constraints faced in terms of establishing an audit quality assurance function that is independent of the profession, it is possible that in collaboration with MAC, the OAGU can play a broader role in this area.

⁸⁰ The Office of the Auditor General of the Union (OAGU) issued a notification to the Minister of Transport dated January 27, 2016 which advised that, starting from the 2013-2014 financial year, the four departments operating under their own funding (Inland Water, Myanmar Port Authority, Myanmar Airlines and Myanmar Shipyards) could be audited by either the OAGU or auditors registered at MAC or internationally recognized organizations. If they are not to be audited by OAGU, then the appointment of the auditor would need to be approved by the OAGU. The OAGU can instruct the appointed auditors on how to conduct the audit and has the right to inspect their audit work.

VIII. MONITORING, COMPLIANCE AND ENFORCEMENT

150. **MAC is responsible for the regulation and oversight of the accounting profession as prescribed in the MAC Law.** It is also responsible for the enforcement of accounting, auditing and ethical standards, training accountants and auditors, and the registration of accountants and auditors.
151. **The oversight activities performed by MAC and MICPA are very limited due to both a lack of resources and expertise.** MAC's activities have historically been limited, in practice, to ensuring that members of MICPA attend regular training courses and performing oversight of accounting examinations.
152. **Non-compliance with accounting and auditing standards has been covered in sections VI and VII.** A key factor that is contributing to the significant compliance gap is the fact that there is very limited monitoring of compliance or enforcement of the accounting, auditing standards and ethical standards requirements.
153. **There is no formal monitoring of preparers of financial statements for compliance with the accounting standards by MAC or MICPA.** A Compliance Review Committee (CRC) was established in February 2015 by MAC Notification 2/2105. It was replaced in September 2015 by two separate committees – the Accounting Practices Review Committee and the Auditing Practices Review Committee. The scope and mandate of the two committees includes the supervision of practicing accountants to determine compliance with MAC rules and regulations, directives, accounting standards and financial reporting standards.
154. **The rules and regulations, procedures and practice aids to be used by the committees when conducting such supervision activities however, have not yet been developed.** A limited number of reviews have been completed on an ad hoc basis. It was intended to establish a peer review process but this was not put into effect due to the lack of a proper structure and no agreed terms of reference for the reviewers. MAC also proposed starting a process of Practice Review and requested information from practitioners, including a list of clients at the time of renewal of their public practice certificate. However, no database was put in place to record and analyze the data received.
155. **None of the four key regulators have any mechanisms for monitoring compliance with accounting standards.** Company statutory financial statements are submitted to the DICA, which monitors companies' compliance with their statutory submission obligations. The DICA does not have the capacity or resources to review the financial statements received for proper application of accounting standards. Similarly, the SEC, CBM and Financial Regulatory Department (FRD) do not complete such a review for the entities for which they have regulatory oversight. The SEC has only recently been established and, while it does have a monitoring and enforcement unit, it currently has limited capacity and the regulatory framework under which it will operate is still being developed. The activities of the supervision departments of the CBM and FRD are limited to compliance with prudential regulations by financial institutions.⁸¹

⁸¹ No qualified and experienced accountants are on the staff of these regulators. Therefore, supervisory staff are not familiar with IFRS, as adopted by Myanmar in 2009, and no guidelines have been developed to complete reviews for compliance with accounting standards. The Government's remuneration scales would mean it would likely be difficult to attract people with the necessary experience and expertise.

156. **Similarly, despite their respective mandates, MAC and MICPA do not have a formal mechanism for monitoring and overseeing audit quality.** A good practice mechanism would usually be designed to provide quality assurance over compliance with the auditing standards (MSA), the quality control standard (MSQC1) and the ethical standards of auditors when they conduct their audits.
157. **An appropriate audit quality assurance regime will be needed.** Without appropriate monitoring and enforcement of the standards requirements improvements will likely be constrained. Monitoring and enforcement also has an important linkage with capacity building through the identification of systemic or recurring issues.
158. **The audit quality assurance regime should initially focus on arrangements for audit quality reviews for the auditors of PIEs.** This can then be extended to cover auditors of non-PIEs as capacity is developed and resources become available. MAC plans to become a member of the International Forum of Independent Audit Regulators (IFIAR) and join the ASEAN Audit Regulatory Group to take advantage of the support available from these bodies.
159. **The ICAEW report on ‘Strengthening Audit and the Regulation of Audit’ recommended a number of initiatives.** Among them was the “determination of the professions regulatory structure – finalize legislation, set up an effective audit quality management function, set up a compliance, investigation, and disciplinary function, and set up a public oversight function”. ICAEW is currently completing further work which will include a roadmap for the establishment of an audit quality assurance regime in Myanmar. This will take into account the current capacity and resourcing constraints faced by MAC and MICPA.

IX. AREAS FOR CONSIDERATION

160. **This assessment has identified many areas for consideration as Myanmar moves to increase the alignment of its statutory institutional framework for financial reporting and audit with international good practice.** It is important to recognize that a number of the recommendations can only be implemented over the medium-term. The speed of implementation will depend on a number of factors, including how quickly the necessary capacity development takes place and the level of financial and technical resources that are available. For these reasons, we have endeavored to provide an indication of the relative level of priority for the recommendations.

Recommended action	Why this is important	Risk if action not taken
Short-term priorities		
Finalize the statutory framework. This would include the enactment of the Myanmar Companies Law, the finalization of the rules and regulations for the implementation of the Securities Exchange Law and Financial Institutions Law and the establishment of a differential reporting framework.	These are fundamental underpinnings for the financial reporting reform process.	Progress with alignment with international good practice may be delayed.
The regulations for the Financial Institutions Law, Central Bank Act and the Securities Exchange Law should be aligned with international good practice for financial reporting, audit and publication requirements.	An effective and efficient regulatory regime. These requirements should be consistent for all PIEs. ⁸²	Inconsistent requirements may remain.
The regulators should collaborate with MAC and MICPA to ensure that the requirements are aligned with international good practice. In particular, the regulations need to make it clear that: <ul style="list-style-type: none"> i. General purpose financial statements should be prepared in full compliance with IFRS/MFRS and not be overridden by prudential financial reporting requirements or taxation rules. ii. Full copies of audited financial statements are to be made easily available to the public by publishing them on the enterprises' websites. 	This enables financial statements to be prepared in full compliance with IFRS/MFRS. This ensures transparency and accountability.	Preparers of financial statements are unable to assert full compliance with IFRS. International good practice standards are not achieved.

⁸² Similarly, consistent approaches should be established for auditor licensing, approval of auditor appointments, auditor rotation rules, and internal audit. Audit committees should also be incorporated in the regulations. The regulators should jointly agree on the criteria they will use to assess whether an auditor has the competence and experience required to audit PIEs.

Recommended action	Why this is important	Risk if action not taken
Short-term priorities		
<p>Determine which enterprises should be deemed as PIEs. Both privately owned enterprises and those enterprises where the Government has an ownership interest should be considered.⁸³ SEEs contribute significant amounts to public revenues. Those SEEs that are ‘for profit’ entities would usually be corporatized and have the same regulatory and financial reporting requirements as private sector companies.⁸⁴</p>	<p>By definition PIEs are key enterprises in any economy. Therefore, they need to be held to higher standards of public accountability and transparency.⁸⁵</p>	<p>The public interest may not be fully protected. An appropriate standard of transparency and accountability for PIEs may not be achieved.</p>
<p>Establish a differential reporting framework. This would summarize, in one place, the statutory financial reporting, audit and publication requirements for an enterprise’s financial statements. The framework would also identify any types of enterprise that are exempt from any of the requirements.</p> <p>In particular, it is suggested that the framework should:</p> <ol style="list-style-type: none"> Define which accounting standards SEEs should apply in the preparation of their general purpose financial statements. Provide a consistent definition of SMEs and micro SMEs.⁸⁶ Establish which enterprises should be exempt from a statutory audit requirement. 	<p>The framework would eliminate the uncertainties caused by inconsistencies in the current statutory framework. Provides clarity for preparers, auditors and regulators on the financial reporting, audit and publication requirements.</p> <p>Provides clarity about the distinction between those SEEs that are ‘for profit’ and those that are public benefit entities. Those that are ‘for profit’ should apply MFRS while public benefit entities should apply IPSAS (including MFIs).</p> <p>The basis for deciding which SMEs should apply MFRS for SMEs⁸⁷ and which accounting framework micro-SMEs.</p> <p>An appropriate audit exemption regime would:</p> <ol style="list-style-type: none"> Reduce the costs of doing business for smaller companies; and Ease the demands on the audit profession, which will help address problems with audit quality. 	<p>The current uncertainties and inconsistencies may remain.</p> <p>SEEs may apply inappropriate accounting standards in the preparation of their financial statements. SMEs may apply inappropriate accounting standards in the preparation of their financial statements.</p> <p>Smaller companies may face unnecessary compliance costs.</p>

83 PIEs normally include listed companies, financial institutions, and major non-listed entities, whether in the public or private sector, where public accountability is deemed important in the public interest. The statutory financial reporting and statutory audit requirements are usually consistent with those of a publicly listed entity.

84 The recently issued OECD Guidelines on Corporate Governance of State-Owned Enterprises 2015 state that “state-owned enterprises should observe high standards of transparency and be subject to the same high quality accounting, disclosure, compliance and auditing standards as listed companies.

85 International good practice is that PIE transparency and accountability requirements include: i) an independent statutory audit of PIEs’ financial statements; and ii) that their audited financial statements are published in the public domain.

86 The draft Myanmar Companies Act and the SME Development Law use different definitions.

87 MFRS for SMEs is too complex and the compliance costs would be too high for micro SMEs that dominate the Myanmar SME sector. Some jurisdictions either allow micro SMEs to apply a simplified financial reporting framework aligned with the taxation and statistical reporting requirements or a complete exemption.

Recommended action	Why this is important	Risk if action not taken
Short-term priorities		
<p>Determine the respective roles and responsibilities of MAC and MICPA. The current legislative framework has some constraints that will likely require future amendments to the MAC Law.</p> <p>MAC has the ability to delegate responsibilities to MICPA. A suggested initial allocation would see MAC having direct responsibility for setting accounting and auditing standards and audit quality assurance as well as monitoring the performance responsibilities delegated to MICPA. The suggested delegated responsibilities are:</p> <ol style="list-style-type: none"> PQP CPA training and examinations Oversight of private sector tuition providers Licensing of auditors Complaints, investigation and disciplinary functions. 	<p>The separation between the functions of the regulator and PAO will increasingly become more important in order to avoid any perceptions of conflicts of interest.</p> <p>MICPA will need to develop the capacity to operate independently and advocate on behalf of the accountancy profession in the public interest as it moves forward with IFAC membership.</p> <p>The clear allocation of responsibilities would provide clarity and enable development partners and others to prioritize and target their capacity development support.</p>	<p>No separation between regulatory and PAO functions. Development of MICPA's capacity and independence may be constrained.</p> <p>Lack of clarity and potential for inappropriate prioritization/targeting of support or overlap and duplication.</p>
<p>MAC and MICPA work jointly with regulators to develop appropriate monitoring, compliance and enforcement arrangements.⁸⁸</p> <p>It is suggested that the arrangements initially focus on:</p> <ol style="list-style-type: none"> Compliance by PIEs with MFRS in the preparation of their financial statements; and Compliance by auditors of PIEs with MSA, MSQC1 and the IFAC code of ethics when conducting their audits. <p>It is recommended that the details of these arrangements, including any sanctions for non-compliance, once agreed with stakeholders, be included in a formal Notification issued by MAC.</p>	<p>Lack of oversight is contributing to the compliance gap that currently exists.</p> <p>Strengthening these activities and appropriate enforcement will make an important contribution to the capacity building process by identifying recurring or systemic issues.</p> <p>This will ensure that all stakeholders are aware of the requirements and the potential consequences of non-compliance.</p>	<p>Addressing the compliance gap may be delayed.</p> <p>Full compliance with MFRS/IFRS may be delayed.</p> <p>Full compliance with MSA, MSQC1 and the IFAC code of ethics may be delayed.</p> <p>The monitoring compliance and enforcement actions may be challenged.</p>
<p>MAC and MICPA collaborate with regulators to develop IFRS/MFRS transition plans covering all PIEs. Major SEEs that are deemed PIEs will need to be covered. This is particularly important in the financial sector given the systemic importance of the state-owned banks and state-owned insurance company.</p>	<p>The intention to adopt the latest suite of IFRS and the subsequent implementation will be a major undertaking.</p>	<p>The transition to full compliance with IFRS by PIEs may not be successfully achieved.</p>

88 Under a project financed by the Asian Development Bank, ICAEW will provide specific advice on the arrangements related to audit quality assurance for auditors of PIEs that will take into account the current capacity constraints and financial resources available.

Recommended action	Why this is important	Risk if action not taken
Short-term priorities		
<p>Proper planning for IFRS/MFRS transition⁸⁹ will be necessary at both the sector and individual enterprise levels if full compliance is to be successfully achieved.⁹⁰</p> <p>Consideration will need to be given to the feasibility of effective dates for the application of new (or changes to existing) accounting standards.</p> <p>It is likely that a phased approach with certain exemptions will be necessary during the transition period.</p>	<p>Appropriate project and change management disciplines are necessary.⁹¹</p> <p>This planning needs to take account of major changes to IFRS since 2009.⁹²</p>	<p>Proper planning and implementation support is not put in place.</p>
<p>It will be necessary to ensure proper planning for implementation support for the latest versions of MSA, MSQC1 and the IFAC Code of Ethics.</p> <p>Initially the primary focus of the capacity building be for auditors of PIEs.</p>	<p>This will help to address the current standards and compliance gaps.</p> <p>This will indirectly support the IFRS transition process.</p>	<p>Progress in improving the quality of audits may be constrained.</p>
<p>Specific consideration will need to be given to the audit for PIEs under the UOAG's mandate.⁹³</p> <p>In the medium term, once the statutory audit exemption regime has been put in place support initiatives will be required for auditors of non-PIEs.</p>	<p>A consistent standard needs to be achieved for the audit arrangements for all PIEs.</p> <p>Audit quality standards are consistent for all audits.</p>	<p>Different audit standards are applied.</p> <p>A two-tier audit quality standard may develop.</p>
<p>Careful thought needs to be given to the current restrictions on foreign accounting professionals practicing in Myanmar.</p> <p>While it is recognized that the interests of local practitioners need to be protected, an appropriate balance with the longer-term interests of the Myanmar accounting profession needs to be achieved.⁹⁴</p>	<p>Increased demand for accountants with internationally recognized qualifications.</p> <p>Potential investors and other key stakeholders expect that rapid improvements in the quality of financial reporting and auditing will be achieved.</p>	<p>The demand for qualified accountants may not be met.</p> <p>The pace of improvements in the quality of financial reporting and auditing is slower than desired.</p>

89 It is acknowledged that some MFRS/IFRS transition planning and implementation for commercial banks is already underway.

90 As part of the implementation of the various transition plans, training modules for MFRS and MFRS for SMEs will need to be developed for different categories of preparers, auditors and users.

91 Appendix III provides guidance on what would normally be covered under an IFRS Transition Plan.

92 The fully revised version of IFRS 9 Financial Instruments will apply internationally from 1 January 2018 so it may be advisable to aim for this as an effective date for application in Myanmar.

93 Decisions will be required on: i) The competency and expertise criteria that will be used to select private sector audit firms for the corporatized SEEs; ii) The role of the OAG in both the auditor appointment processes and the audit quality assurance process for the auditors who are appointed; and iii) The capacity building required for the OAG for the audits of those SEEs that are not corporatized.

94 Under the ASEAN Mutual Recognition Agreement on Accounting Services, foreign accounting professionals will be able to practice in Myanmar after signing bilateral and/or multilateral MRAs between or among ASEAN Member States for providing external auditing services and other accountancy related services.

Recommended action	Why this is important	Risk if action not taken
Short-term priorities		
<p>MAC needs to give further consideration as to whether the revised PQP program should be fully implemented. Currently the revised PQP program and associated learning materials are only being used as reference materials.</p>	<p>The PQP program needs to be fully aligned with international standards. This is an important component of strengthening the MICPA designation.</p>	<p>The international recognition of the MICPA designation may be delayed.</p>
Medium to long-term priorities		
<p>MAC and MICPA need to determine the extent of resources they will require to fulfill their respective mandates as regulator and PAO.⁹⁵ MAC and MICPA currently have limited resources and capacity. In the short-term, it may be possible to secure support from development partners, IFAC and PAOs. However, in the medium term MAC and MICPA need to plan on becoming self-sufficient.</p> <p>There are two key areas that will impact on future resource requirements:</p> <ol style="list-style-type: none"> The need to strengthen the technical resources at both organizations; and The need to establish an education and training department within one of the organizations. The primary functions would include development of training and examination materials, training provision accreditation, exemption accreditation, and work experience evaluation. 	<p>Development of a sustainable funding model requires an understanding of the resources required by each organization.</p> <p>There are a range of options that could be explored which include additional funding from the Government, a revised membership fee structure and collaboration with other regulators.</p> <p>This should ensure that any revisions to existing standards or the issuance of new international standards are incorporated into the Myanmar standards in a timely manner.</p> <p>These functions are critical as they provide the basis for the implementation of a competency-based certification program which is suited to the needs of today's profession.⁹⁶</p>	<p>A lack of resources hampers implementation of the accounting and auditing reforms.</p> <p>The accounting and auditing standards are not kept up to date. Implementation of a modern competency based program may be delayed.</p>

⁹⁵ The MICPA Strategic Plan recognizes that it will require support to: (a) determine the organizational structure; (b) develop a business plan; (c) carry out an HR needs analysis; and (d) look at options to bridge the funding gap. The above recommendations are being taken into consideration by MICPA as it develops its corporate plan for endorsement by its council members.

⁹⁶ Some of the critical tasks to be implemented will include:

- Development of guidelines to accredit learning providers (for admission into the PQ Program, granting of exemptions, and CPD Programs);
- Establishment of an organizational structure to monitor learning providers and assess their programs;
- Development of study materials and teaching guides for the PQ Program;
- Design of training programs to train examination developers and markers;
- Development of a suite of CPD offerings;
- Establishment of a platform to manage students and members, including examination marks, and compliance with CPD requirements.

Recommended action	Why this is important	Risk if action not taken
Medium to long-term priorities		
<p>Consideration should be given to further broadening of the avenues for CPA entry.</p> <p>The current CPA qualifications are still restricted to a relatively small number of graduates even after the recent changes to the entry criteria.</p> <p>The decision making process on CPA entry criteria should be informed by the development of a Competency Framework for professional accountants and auditors.⁹⁷</p>	<p>Increasing the pipeline for potential qualified accountants is key to being able to meet the increasing demand for qualified accountants.</p> <p>The CPA entry criteria need to be aligned to the skills and attributes sort by employers. A competency based certification program is designed to achieve this alignment. It is also useful when discussing exemptions and mutual recognition arrangements with universities and foreign PAOs.</p>	<p>Insufficient numbers of appropriately qualified accountants are available to support Myanmar's rapidly growing economy.</p> <p>The skills and attributes of accountants do not meet employers' needs.</p>
<p>Finance and accounting degree programs need to be upgraded.</p> <p>The Yangon University of Economics has begun a process of revising its curricula.⁹⁸ Significant resources will need to be devoted to "retraining" accounting and auditing teaching staff and the provision of modern learning materials.</p>	<p>This will enable university teaching staff to deliver higher education in finance and accounting subjects which reflect the needs of a modern accounting profession.</p>	<p>The desired improvements in the quality of the degree programs may not be achieved.</p>
<p>Regulators should collaborate to develop a code of corporate governance.⁹⁹ The Financial Institutions Law 2016 and the draft Myanmar Companies Act both include important precedent setting standards for corporate governance, financial reporting, audit and publication requirements that could be used as the starting point.</p> <p>A good practice guide would facilitate the implementation of an education program for key policy makers, board/audit committee members, regulators, preparers and auditors. A component of the education program should cover accounting and auditing standards, financial reporting, external and internal audit.</p>	<p>Consistent standards for corporate governance applied across all regulated enterprises.</p> <p>This would help increase the level of understanding of international good practice and the key role financial reporting and auditing play in a modern market based economy.</p>	<p>Inconsistency in standards and potential for duplication of efforts.</p>

97 This is usually initiated by conducting a survey across a range of stakeholders, including public and private sector employers, accounting and audit firms and universities. The information obtained is then used to determine the competencies which professional accountants and auditors need to acquire: (a) through completing a University Degree Program; (b) during their practical experience; (c) as part of completing the different levels of the Professional Qualification Program; and (d) through electives and CPD for specializations.

98 This process is being assisted by an International PAO. An option for achieving rapid progress in this area is for universities to enter into 'twinning arrangements' with overseas universities that have established high quality accounting and finance degree programs. Such arrangements would ideally include agreements for the adoption of their curricula, the provision of teaching materials, and assistance in training academic staff in the use of those materials. These arrangements often also include secondment and/or transfer of academic staff members and students between universities.

99 The International Finance Corporation has had discussions with the SEC about preparing a good practice code of corporate governance. It has begun a comprehensive program of support for the implementation of a corporate governance (CG) regime. This includes raising public awareness of CG, capacity development with specific sectors within the market, strengthening the enabling environment through work with regulators, and direct technical assistance for selected entities.

Recommended action	Why this is important	Risk if action not taken
Medium to long-term priorities		
<p>All PIEs should establish audit committees with adequately qualified members. Currently the Stock Exchange Rules and Regulations and the Financial Institutions Law require all listed companies and banks to establish audit committees.</p> <p>Audit committees have a critical corporate governance responsibility.¹⁰⁰ The committee should therefore be comprised of independent non-executive directors with appropriate knowledge and experience.</p>	<p>Consistent requirements across all regulated enterprises.</p> <p>Consistency of the composition of audit committees and qualification requirements of committee members across regulated enterprises.</p>	<p>Inconsistencies in audit committee requirements across regulated enterprises. Inconsistencies remain.</p>
<p>The accounting profession needs to address the issue of low audit fees. A concerted effort by the accounting profession, led by MAC and MICPA along with the regulators, is needed to educate key stakeholders on the value proposition for the independent audit process. This should focus on the key contribution the independent audit provides to corporate financial reporting in terms of credibility, transparency and accountability.</p>	<p>A high-quality audit process requires audit fees to be set at a sustainable level. Apart from the significant corporate governance implications, the audit fee issue raises questions about the overall sustainability of the external audit profession in Myanmar.</p>	<p>Adverse impact on audit quality and auditor independence.</p>

¹⁰⁰ International good practice defines that the role of an audit committee is: to specify the entity's accounting policies and supervise the financial reporting process; supervise the effectiveness of the internal control and internal audit functions; appoint and dismiss the external auditors; and review the audit report and management representation letter.

APPENDIX I

Review of Audited Financial Statements of non-SEEs

The ROSC team reviewed a sample of 12 translated audited financial statements for compliance with the national accounting standards.¹⁰¹ The sample included two privately owned commercial banks, two privately owned insurance companies, and eight SMEs.

Privately owned financial institutions

The audited financial statements of two private commercial banks and two private insurance companies were reviewed. As these companies are financial institutions, they all meet the criteria to be considered PIEs. Under the MAC Law, they should prepare their financial statements in full compliance with MFRS. The financial statements of all four companies received unqualified audit reports.

The key observations of the ROSC review team are as follows:

Commercial Banks

FINANCIAL INSTRUMENTS

In both cases the audited financial statements indicated that financial assets were recognized and classified in accordance with IAS 39 Financial Instruments: Recognition and Measurement (MAS 39). They also included details of the nature and extent of risks and the management of those risks as required by IFRS 7 (MFRS 7). However, most of the wording of the relevant accounting policy and note disclosures was of a generic nature rather than being specifically tailored to convey more information to the user about the particular policies and accounting treatments of the individual banks.

PROVISIONS FOR LOAN LOSSES

One bank provided more accounting policy information in relation to credit risk than the other. However, it indicated that loans and advances were assessed in accordance with the rating scale set by CBM prudential regulations. Substandard loans – loans past the due date or in excess of the loan limit – were assessed as doubtful if they were past the due date in excess of 12 months and partial provisions for loan losses were made. Those loans past the due date in excess of two years were recognized as bad, and full provisions for loan losses were made. In addition, both banks disclosed a bad debt reserve equal to 2 percent of the total loans outstanding.

Although both banks disclosed details of loans overdue, one indicated that no loans were impaired while the other indicated that a substantial portion of those loans overdue were not impaired. The banks both indicated that the nature and value of collateral security held against overdue loans was considered in determining whether the overdue loans were deemed to be unimpaired.

Provisions for loan losses should be determined in full compliance with MFRS and not the requirements of the prudential regulations. It was not possible for the ROSC team to determine whether recognition of provisions for loan losses in accordance with the CBM prudential reporting requirements would result in a similar outcome if the requirements of MFRS had been fully complied with.

¹⁰¹ In addition, four audited financial statements of SEEs were reviewed and the findings are fully discussed in paragraphs 124 to 126.

TAXATION

The financial statements of one bank indicated that it followed deferred tax accounting while the other adopted the current payable method. MAS 12 requires deferred tax assets and liabilities to be recognized. Deferred tax arises where there are differences (either permanent or timing) between the accounting treatment required by the accounting standards and the treatment required by the taxation authority (e.g. depreciation rates on fixed assets).

RELATED PARTIES

Although both banks disclosed details of related party balances, only one bank detailed the basis upon which related party transactions took place. One bank disclosed that although the title to certain plant and equipment was held by a shareholder, the bank had nevertheless recognized the plant and equipment as an asset on the basis that the title would be transferred. MFRS requires information not only on the nature of related party relationships but also pertaining to the transactions. Under the framework of MFRS, an asset needs to be controlled by the entity in order to be recognized.

Insurance Companies

POLICY HOLDERS' PROTECTION FUND

The accounting treatment adopted by the companies with respect to the establishment of a policy holder's protection fund, in accordance with Myanmar regulatory requirements, varied considerably. One company treated the fund as a liability, with transfers to the fund forming part of comprehensive income, while the other company treated the fund as a reserve within the shareholders' equity, with transfers to the fund being disclosed as a movement in retained earnings.

If the fund is in the nature of a catastrophe reserve, the fund would not qualify as a liability under IAS 4 (MAS 4). This distinction is important as the different treatments adopted mean that the net income of the two insurance companies is being determined on an inconsistent basis and therefore the financial performance of the two entities is not comparable.

RECOGNITION OF PREMIUM INCOME

The two insurance companies also recognized premium income on a different basis: one company recognized income over the term of the policy while the other appeared to have recognized the full premium as revenue at the time the policy was written. This difference was confirmed by the fact that one company disclosed a liability for unearned income while the other did not. Again, this is important as the premium income is being recognized on an inconsistent basis and therefore the financial performance of the two companies is not comparable.

RELATED PARTIES

Although both companies disclosed related party transactions, there was no separate disclosure of remuneration to key personnel, as required by MAS 24.

TAXATION

One company indicated that it followed deferred tax accounting while the other recognized tax liabilities on a current tax payable basis. MAS 12 requires deferred tax assets and liabilities to be recognized.

INTANGIBLE ASSETS

Building renovation costs and building rent expenses were classified by one company as intangible assets. The building rent expenses appeared to be a prepayment since a portion was expensed during the year. Under MFRS, renovation costs would normally be classified under fixed assets as work in progress, while prepaid rental would be disclosed as a prepayment.

The differences in accounting treatment and disclosures between the two insurance companies is surprising as the audits of both companies were conducted by the same audit firm and the audit reports for both financial statements were unqualified. This raises issues about the quality of individual audits and the audit firm's quality assurance processes.

SMEs

The audited financial statements of eight SME companies were reviewed. All of the SMEs' financial statements received unqualified audit reports.

The key observations of the ROSC review team were as follows:

ACCOUNTING STANDARDS APPLIED

The audit reports for two of the companies reviewed indicated that the financial statements had been drawn up in accordance with MFRS for SMEs. The financial statements of three companies complied with MFRS, according to the audit reports: one company merely reported that the profit and loss account had been fairly drawn up, while another declared that the financial statements had been drawn up in accordance with IFRS. All of the SMEs' financial statements should have been prepared in full compliance with MFRS for SMEs under the current legislation.

ACCOUNTING POLICIES

The quality of information disclosing the accounting policies applied by the SMEs was generally very poor. One construction company did not disclose the basis on which it recognized revenue on construction contracts. A manufacturing company disclosed that "work in progress" and "finished goods" were recognized as inventory at a "price deemed appropriate by management" but did not indicate whether this was the equivalent of the lower of cost or net realizable value, as required by MFRS for SMEs.

Accounting policy information is very important as it enables the reader of the financial statements to understand how income, expenditure, asset, liabilities, commitments and contingencies have been recognized.

CASH FLOW STATEMENTS

The format adopted for the Statement of Cash Flows varied greatly, with some being little more than a cash book analysis. MFRS for SMEs Section 7 requires an entity to present a statement of cash flows classified by operating activities, investing activities and financing activities. This classification provides the reader with an understanding of how the cash flow was generated and applied.

RELATED PARTIES

In the majority of cases disclosure with respect to related party transactions was poor, especially in relation to the basis on which related party transactions occurred. MFRS for SMEs Section 33 requires details to be disclosed of the nature of the related party relationship as well as information about the transaction.

TAXATION

Tax effect accounting was generally not followed. MFRS for SMEs Section 29 requires the recognition of deferred tax assets and liabilities.

APPENDIX II

STATE-OWNED ECONOMIC ENTERPRISES AS OF SEPTEMBER 2016 ¹⁰²	
Industry/Sector	SEEs
Information	News and Periodicals Enterprise
Agriculture, Livestock and Irrigation	Myanmar Agriculture Development Bank
Transport and Communications	Myanmar Railways
	Road Transport (Highways)
	Myanmar Telecommunications Enterprise
	Myanmar Postal Services
Natural Resources and Environmental Conservation	Myanmar Timber Enterprises
	No.1 Mining Enterprise
	No.2 Mining Enterprise
	Myanmar Gems Trading Enterprise
	Myanmar Pearls Production and Trading Enterprise
Electricity and Energy	Myanmar Oil and Gas Enterprise
	Myanmar Oil and Chemical Enterprise
	Myanmar Petroleum Products Trading Enterprise
	Electricity Production Enterprise
	Electricity Distribution Enterprise
Industry	No.1 Industry Enterprise
	No.2 Industry Enterprise
	No.3 Industry Enterprise
	Myanmar Pharmaceutical Enterprise
Planning and Finance	Myanmar Economic Bank
	Myanmar Investment and Commercial Bank
	Myanmar Foreign Trade Bank
	Myanmar Foreign Trade Bank
	Myanmar Insurance Enterprise
Transport and Telecommunications (outside) ¹⁰³	Security and Printing Enterprise
	Inland Water Transport
	Myanmar Port Authority
	Myanmar Shipyards
Electricity and Energy (outside)	Myanmar National Airlines
	Yangon Electricity Supply Corporation
Myanmar Central Bank (outside)	Mandalay Electricity Supply Corporation

¹⁰² List of SEEs supplied by the Ministry of Planning and Finance.

¹⁰³ Those entities denoted (outside) are off budget enterprises that do not receive any funding from the Government budget.

APPENDIX III

IFRS Transition Planning

The IFRS Transition Plan should be completed at both the sector level and individual enterprise level.

1. SECTOR LEVEL

The first step is the preparation of the IFRS gap analysis at the sector level.

- i. **An assessment of the impact of IFRS compliance on the enterprises within the sector.** This is usually completed based on a sample of enterprises and assesses current readiness to achieve full compliance. The assessment is designed to identify key areas at the sector level that are not in compliance with the IFRS requirements and determine the requirements for achieving full compliance;
- ii. **An assessment of the current systems and processes for financial reporting.** This identifies the key areas where these are not aligned with IFRS financial reporting requirements;
- iii. **Completion of a high-level capacity development needs assessment.** This identifies the key areas where capacity building is required and provides an indication of the relative priorities for a capacity building program for the sector as a whole. This would usually cover the current capacity development needs in terms of governance and accountability, and human resource requirements (numbers of people, and the technical and other competency requirements) and equipment.

The information from the sector level IFRS gap analysis is used to develop a comprehensive action plan for implementation of IFRS in a sector for which the IFRS Transition Plan is prepared over a realistic transition period. This will include a detailed prioritized and sequenced roadmap. It may include a phased approach for groups of enterprises within a sector based on the current level of capacity.

2. ENTERPRISE LEVEL

Each individual enterprise will also need to complete an IFRS gap analysis and prepare a detailed IFRS Transition Plan. This can be informed by the information obtained during the development of the sector level IFRS Transition Plan.

The areas that should be covered at the individual enterprise level include:

- i. **Accounting & Finance**
 - Identification of key IFRS differences on an account level basis and a quantification of their impact;
 - IFRS based accounting policies and a convergence plan for the current accounting policies.
- ii. **IFRS training/capacity building plans**
 - Changes to reporting packages and consolidation processes (where appropriate);
 - Changes to management information systems;
 - Dates for the preparation of comparative information.
- iii. **Communication Plan**
 - External communication plan for stakeholders and other users of financial statements;
 - Internal IFRS communication plan for employees, senior management and board members.
- iv. **Subsidiaries & Business Units**
 - IFRS impact assessments (where appropriate)

- IFRS training plans
- IFRS reporting packages

v. Information Systems

- Impact of IFRS on overall systems;
- Short-term versus long-term solutions;
- IFRS business user requirements and functional specifications;
- IFRS systems changes required and parallel runs planned;
- The development of appropriate systems and processes to develop IFRS specific data.

vi. Internal Audit & Risk Management

- Impact of IFRS on business and risk management policies;
- Impact on Internal Control systems;
- IFRS compliance tests;
- Liaison with external auditors.

vii. Human Resources

- Recruitment of staff with practical IFRS implementation experience;
- IFRS training and change management and plans; and
- Plans for supplementary external resources.

The project plans in each of the above areas provide a basis for projecting the costs involved in the transition process and an informed picture of a realistic timeframe for the transition of full IFRS for the enterprise. It will also provide a good indication of the key areas where support in the transition process will be needed.

APPENDIX IV

ROSC A&A STEERING COMMITTEE MEMBER LIST				
No	Name	SC	Organization	Designation
1	U Kyaw Tin	Chairman	MAC	Vice-Chairman
2	U Tin Hlaing	Vice-Chairman	OAG	Deputy Director General (Retired/Expert)
3	Daw Khine Khine Aung	Member	OAG	Deputy Director General
4	Daw Yee Yee Khaing	Member	Treasury Department	Director
5	Daw San San Wai	Member	Budget Department	Deputy Director
6	Daw Hla Jla San	Member	Internal Revenue Department	Deputy Director
7	Daw Myat Myat Cho	Member	Internal Revenue Department	Deputy Director
8	Daw Nwe Ni Soe	Member	Financial Regulatory Department	Director
9	U Ko Ko Maung	Member	Financial Regulatory Department	Deputy Director
10	Daw Mya Mya Win	Member	MOPF	Assistant Secretary
11	Daw Khin Than Oo	Member	Planning Department	Deputy Director
12	Daw Nilar Mu	Member	DICA	Director
13	Daw Myint Myint Oo	Member	DICA	Deputy Director
14	U Win Htein Min	Member	Central Bank of Myanmar	Director
15	Daw Kyi Moe Moe Aye	Member	Central Bank of Myanmar	Deputy Director
16	Daw Htay Htay	Member	Yangon University of Economics	Associate Professor
17	Dr. Winne Tun	Member	Yangon University of Economics	Associate Professor
18	Daw Myint Myint Nyo	Member	Security and Exchange Commission	Assistant Director
19	Daw Tin Zar Zar Lynn	Member	Security and Exchange Commission	Assistant Director
20	U Kyaw Than	Member	MICPA	Member
21	Daw Yin Yin Tint	Member	MICPA	Member
22	U Sein Win Hlaing	Member	UMFCCI	Auditor
23	Daw Kay Thwe Lin	Member	UMFCCI	Head of Department
24	Daw Khin Mar Cho	Member	Myanmar Insurance	Assistant General Manager
25	Daw Khin Moe Kywe	Member	Myanmar Insurance	Assistant General Manager
26	Daw Thandar Lay	Secretary	OAG	Director

APPENDIX V

LIST OF AUDITED FINANCIAL STATEMENTS REVIEWED BY THE ROSC A&A TASK TEAM

- 1 A Bank (FY 2014-15)
- 2 C Bank (FY 2014-15)
- 3 D Bank (FY 2014-15)
- 4 E Bank (FY 2014-15)
- 5 H Bank (FY 2014-15)
- 6 Myanmar Insurance (FY 2014-15)
- 7 Myanmar Oil and Gas Enterprise, Ministry of Energy (FY 2014-15)
- 8 Pharmaceuticals and Foodstuff Products Industries, Ministry of Industry (FY 2014-15)
- 9 No. 1 Heavy Industries Enterprise, Ministry of Industry (FY 2014-15)
- 10 Myanmar Economic Bank (FY 2014-15)
- 11 City Light Company Limited
- 12 Du Won Electric Company Limited
- 13 Mirait Information Systems Myanmar Company Limited (FY 2014-15)
- 14 Centre of New Myanmar Travel and Tour Company Limited (FY 2014-15)
- 15 Sanda Tour (Asia) Company Limited
- 16 TPR Myanmar Limited (FY 2014-15)
- 17 Tet Thit Nay Wun Construction Company Limited (FY 2014-15)
- 18 ZTE Myanmar Company Limited (FY 2014-15)
- 19 Grand Guardian Insurance Company Limited (FY 2014-15)



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