STRENGTHENING FINANCIAL REPORTING REGIMES AND THE ACCOUNTANCY PROFESSION AND PRACTICES IN SELECTED CARIBBEAN COUNTRIES

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MAIN ABBREVIATIONS AND ACRONYMS

ACCA  Association of Chartered Certified Accountants (United Kingdom)
AICPA  American Institute of Certified Public Accountants
BICA  The Bahamas Institute of Chartered Accountants
CAROSAI Caribbean Organization of Supreme Audit Institutions
CDB  Caribbean Development Bank
CIMA  Chartered Institute of Management Accountants (United Kingdom)
CPA  Chartered Professional Accountants (Canada)
CPD  Continuing professional development
CPS  Country Partnership Strategy (World Bank)
GDP  Gross domestic product
FSC  Financial Services Commission
IAASB International Auditing and Assurance Standards Board
IAESB International Accounting Education Standards Board
IAS  International Accounting Standards
IASC International Accounting Standards Committee
ICAB Institute of Chartered Accountants of Barbados
ICAB Institute of Chartered Accountants of Belize
ICAC Institute of Chartered Accountants of the Caribbean
ICAEW Institute of Chartered Accountants in England and Wales
ICAES Institute of Chartered Accountants of the Eastern Caribbean
ICAG Institute of Chartered Accountants of the Caribbean
ICAJ Institute of Chartered Accountants of Jamaica
ICATT Institute of Chartered Accountants of Trinidad & Tobago
IDB Inter-American Development Bank
IEPS International Education Practice Statement
IES International Education Standards
IESBA International Ethics Standards Board for Accountants
IFAC International Federation of Accountants
IFIAR International Forum of Independent Audit Regulators
IFRS International Financial Reporting Standards
IMF International Monetary Fund
IPSAS International Public Sector Accounting Standards
ISA International Standards on Auditing
ISQC International Standards on Quality Control
PAO Public Accountancy Oversight Board
PIE Public interest entity
ROSC Report on the Observance of Standards and Codes (World Bank and IMF)
SAI Supreme audit institution
SEC Securities and Exchange Commission
SME Small and medium-size enterprise
SMO Statement of Membership Obligation (IFAC)
SOE State-owned enterprise
SMP Small and medium-size practice
SUVA Institute of Chartered Accountants of Suriname
UWI University of West Indies
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PREFACE

The study was conducted by a World Bank team comprising Md Mozammal Hoque (Task Team Leader, Senior Financial Management Specialist, PRMM) and Henry Chase and Sonny Mabheju (Consultants, PRMM).

The report significantly benefitted from comments of peer reviewers (including Technical Managers from the International Federation of Accountants). In addition, Daniel Boyce (Practice Manager, Governance Global Practice), and Joseph Kizito (Lead Financial Management Specialist, PRMM) provided guidance. We are also grateful to the management of the Institute of Chartered Accountants of Caribbean (ICAC) and also the ICAC member bodies for their support for this study. In particular, we are grateful to Frank Myers, President, ICAC and Jasmine Davies, Vice-President, ICAC for their active support and their comments on the draft report, which have been reflected in the present report. We also appreciate the support provided by the national accountancy bodies of the Caribbean.
EXECUTIVE SUMMARY

1. The main objectives of this report are to (a) provide a synthesized analysis of financial reporting and auditing standards and practices across the countries in which the Institute of Chartered Accountants of the Caribbean (ICAC) is active\(^1\) and (b) provide a basis for recommendations to ICAC\(^2\) and respective national institutes for a regional strategy to enhance the accountancy profession and accounting and auditing practices in the public and private sectors. This report focuses on the reforms necessary to build on the achievements of ICAC and to further strengthen the accounting profession. The resulting systemic enhancements to the standards and practices of the profession can materially improve the lives of the region’s populace, particularly its less prosperous citizens, through greater transparency, strengthened economic growth and its attendant employment and tax revenue prospects. Such reforms would also result in greater access to financing for and formalization of the region’s dominant sector—micro, small, and medium-sized enterprises (MSMEs).

2. The report finds that a constraint limiting both investment across the region, particularly to the MSMEs that characterize the respective national economies, and the efficient use of public resources is the accounting and auditing practices and the financial reporting regimes that prevail in both the public and private sectors. This finding emerges from: (a) a review of Reports on the Observance of Standards and Codes for Accounting and Auditing (ROSC A&A)\(^3\) conducted by the World Bank for Jamaica, Trinidad & Tobago, Suriname, and the countries of the Organisation of Eastern Caribbean States,\(^4\) and (b) Bank missions to those countries updating the ROSC findings as well as missions to countries that have not yet had ROSC A&A reviews\(^5\) (during which the Bank team met the national accountancy body, regulators of entities that fall within the financial reporting chain, supreme audit institutions, 

\(^1\) This review covers 16 countries or territories: the Bahamas, Barbados, Belize, Guyana, Jamaica, Suriname, Trinidad & Tobago, and members of Organisation of Eastern Caribbean States (Antigua & Barbuda, Dominica, Grenada, Montserrat, St. Kitts & Nevis, St. Lucia, St. Vincent & Grenadines, Anguilla, and the British Virgin Islands).

\(^2\) In correspondence dated January 24, 2013, ICAC confirmed its interest in collaborating with the World Bank on a Caribbean-wide Accounting and Auditing initiative.

\(^3\) As one element of the 12-module (as of the time this study was undertaken) Report on the Observance of Standards and Codes (ROSC) initiative conducted by the World Bank and IMF, the World Bank established a program to assist its member countries in implementing international accounting and auditing standards so as to strengthen their financial reporting regimes.


\(^5\) Annex 1 details the mission consultations.
central banks, and so forth to secure information that would typically be found in formal ROSC A&A reports).  

3. Quality financial reporting is a key factor in establishing an enabling environment for private sector investment and in modernizing public sector management to better deliver services to citizens and ensure accountability for the use of scarce resources. Sound financial reporting also stimulates local and foreign investments that are made as a result of the confidence investors may have in the reliability and breadth of the information circulating in the market, and thus fosters private sector-led economic growth.

4. Strengthening relations among the actors involved in the exchange of financial information will be achieved with proper oversight of performance, high-quality standards in audits, and encouragement for strengthened corporate governance—all of which require both external and self-regulation by a strengthened accountancy profession, whether it operates in government agencies or the private sector. Thus, the report identifies challenges faced by countries and their respective professional accountancy organizations (PAOs) in implementing reforms to strengthen the profession and its regulation, and it proposes specific policy recommendations for governments and PAOs as well as a regional strategy to strengthen and integrate the accountancy profession and promote the free movement of goods and services. These challenges and the recommendations are outlined in the remainder of this Executive Summary.

5. This report’s focus on challenges and opportunities recognizes that compared to a decade ago, the accountancy profession in the region has made significant strides in almost all countries. This is most evident in the widespread adoption by the national professional accountancy organizations (PAOs) of IFRS, including those for SMEs, International Standards on Auditing (ISA), and the International Ethics Standards Board for Accountants (IESBA) Code of Ethics, and in their enhanced efforts in providing continuing professional development courses to members and other national stakeholders. Further evidence lies in the greater PAO affiliation with the International Federation of Accountants (IFAC) and steady (though varying) convergence toward IFAC’s Statement of Membership Obligations (SMOs), and in the enhanced role in all of the above of the efforts of the region’s umbrella accountancy body, the Institute of Chartered Accountants of the Caribbean (ICAC). In addition, ICAC recently initiated a practice monitoring program under a tripartite agreement with the UK-based Association of Chartered Certified Accountants and selected national accountancy bodies; this has the potential to contribute substantially to strengthening the quality of audit produced by accountancy firms in the region, particularly the small and medium-size practices that predominate, although the effort falls short of being a fully independent monitoring process.

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6 Since this is a synthesis report (which principally centers on common regional characteristics while nonetheless including country-specific data and examples) it does not precisely follow the format of a formal ROSC report, but it nonetheless highlights similar content; it also differs from a formal ROSC report in that it proposes Action Plans to address identified challenges, including at a regional level so as to foster harmonization and integration and realize economies of scale.
6. However, convergence with international best practice requires additional efforts to address challenges (whose extent varies to a considerable degree across the region), not least because international standards for public and private sector accounting and auditing are constantly evolving and thus present a moving target that tests accountancy entities across the globe. Typically in the Caribbean, financial and technical capacity constraints seriously impinge on the profession’s ability to meet the evermore rapidly changing environment of the global marketplace. Thus, although the statutory financial reporting frameworks, and even more so practices, in the countries surveyed in this report vary in degree, most lag behind evolving international developments in financial reporting requirements, and the regulatory capacity of governments and national accountancy institutes to check, monitor, and enforce compliance needs strengthening.

Challenges

7. In most Caribbean countries, the public financial management (PFM) system is not yet fully mature and the national statutory frameworks and regulatory practices are generally not up to the standards of international best practice, despite good-faith efforts and recent advances. None of the countries employs a full accrual system of accounting, few have implemented the International Public Sector Accounting Standards (IPSAS), and most countries do not define in statute financial reporting and auditing standards, instead permitting the PAO to establish and enforce these standards. In addition, regulatory agencies lack sufficient capacity to fully protect the public interest or ensure the efficacy of public spending. Thus, state-owned enterprises (SOEs) are often insufficiently monitored, especially given the extent of public resources they consume; the rigor of government regulation of public interest entities7 (such as credit unions) that have fiduciary responsibility for a large section of the public remains limited; and the technical capacity of regulators (central banks, ministries of finance, financial services commissions; securities and exchange commissions, stock exchanges, and supreme audit institutions) needs significant strengthening. Finally, the control environment in the public sector in most Caribbean countries needs significant strengthening: internal audit is typically suboptimal and not risk-based, the preparation of public accounts is often far behind schedule, and Parliamentary oversight of public finances is frequently incomplete.8

8. While there are variations in the practices of PAOs of the region, some common (but not universal) characteristics emerge: (a) the financial and technical capacity of PAOs is limited; (b) PAOs rarely require entrants to the profession to have passed examinations or otherwise demonstrate knowledge of national tax and corporate/business laws; (c) PAOs rarely comprise the entirety of practicing accountants in a country, limiting their institutional reach—which

7 Public interest entities (PIEs) draw at least some of their funding from public sources and have—because of the nature of their business or their size or the number of their employees—an impact on a substantial segment of the populace.
8 Typically, the challenges with respect to both PFM frameworks and regulatory entities reflect the absence of an overarching national framework for the development of an accountable and up-to-date profession able to support both private and public sector entities in the effective, efficient, and transparent use of scarce resources, so as to promote shared prosperity.
adversely impacts the profession; (d) quality control at firm and engagement levels can be improved, particularly in SMPs; (e) in some instances, the independence of auditors is not ensured; and (f) financial reporting frameworks for MSMEs are often not adjusted to their size and public interest circumstances (this implicates governments in those instances where the standards are set out in law rather than deferred to the respective PAOs), and where they are, the MSMEs often lack the capacity to apply them.\(^9\)

9. The region has a significant shortage of qualified professional accountants. This shortage is reflected in the following: the ratio of professional accountants per thousand population is 0.07 in Suriname compared to 0.44 in The Bahamas, 0.81 in Trinidad & Tobago, 0.92 in Mauritius, 2.54 in Barbados, 2.74 in Singapore, and 3.68 in Malta. Stakeholders in those jurisdictions with the fewest accountants regularly cite this as a problem, even in cases where the quality of the accountants is as high as those in the more developed jurisdictions.

10. The quality of professional accountancy education in the region must be further improved, with the support of ICAC, if the profession is to replenish itself and address its challenges. The quality and standard of education from entry level up to continuing professional development (CPD) in some countries does not yet fully comply with the International Federation of Accountants (IFAC) Education Standards.\(^10\) Although most PAOs have made progress on the CPD front in the last decade—critically including with respect to support to their small and medium-size practice (SMP) members—the intensity of this training and the degree to which it drills down on rapidly evolving standards remains a challenge.

11. Organizationally, the accountancy profession in the Caribbean region is fragmented into small, resource-constrained country institutes that are unable to fully support their members or their wider national fiduciary obligations to promote standards and practices that foster investment, growth, and proper governance. As noted, most of these are challenged by limited financial resources and technical capacity, and by suboptimal facilities and number of support staff, and are therefore unable to serve their members and students as effectively as they would wish. They also face limitations in their ability to fulfill the full range of their membership

\(9\) In the absence of clear definition in statute and clarification on which entities qualify to apply IFRS for SMEs the resultant application of full IFRS by some SMEs often proves costly and yields few of the expected benefits.

\(10\) This is evident in PAO Action Plans submitted to IFAC with respect to SMO 2, *International Standards for Professional Accountants and Other EDCOM Guidance*. In some instances, for example, the PAO does not conduct its own examinations and is not collaborating with tertiary institutions to ensure that accountancy education at these institutions produces graduates that meet the minimum International Education Standards (IES) 2: “Entry Requirements to a Program of Professional Accounting Education.” Also, monitored practical training requirements for PAO membership are not being reviewed by the PAO to ensure they are aligned with IES issued by IFAC or with its own requirements (PAOs often rely on the international accountancy body to which the applicant is affiliated—while the desired end result may thus be achieved indirectly, the process underscores PAO capacity constraints). Finally, in more than one instance, the PAO does not ensure that CPD topics cover new standards and changes to existing standards and that in all cases they meet the minimum requirements of IES 7: “Continuing Professional Development: A Program of Lifelong Learning and Continuing Development of Professional Competence.”
obligations to IFAC, to which they are affiliated,\(^\text{11}\) as is evident in their Action Plans submitted to IFAC. The large number of small professional accountancy organizations (PAOs) with significant capacity limitations, and which have limited horizontal links to their regional counterparts, curtails their ability to engage in the activities of international standard-setters (e.g., commenting on “exposure drafts” and “invitations to comment”) and to fully implement these standards in their countries. Finally, the limited regional integration among these PAOs results in the duplication of some functions, which could be better managed at the regional level (e.g., regional quality assurance reviews).

12. Institute of The Chartered Accountants of the Caribbean—the IFAC Acknowledged Accountancy Grouping for the region—faces pronounced capacity constraints. Today, with seven full member institutes and one associate member\(^\text{12}\) and a network of approximately 3,700 accountancy professionals, ICAC is the leading regional organization dedicated to advancing the interests and contributions of accountants within the Caribbean. In recent years, it has initiated an important program of practice monitoring reviews in conjunction with the UK-based Association of Chartered Certified Accountants. More broadly, however, ICAC’s efforts are hampered by significant resource constraints. Its secretariat has severely limited capacity (with only two staff), hindering its service delivery capacity. It has no technical capacity to enable it to contribute effectively to standards adoption processes and standards implementation activities with institutes and standards-setting boards.

**Key Policy Recommendations**

13. Strengthening ICAC would enable it to contribute to national efforts to strengthen PFM systems and enhance transparency and accountability. If ICAC could be supported on the technical capacity front it would be in a position to support its members in contributing to national efforts to (a) develop accounting and auditing standards in public enterprises, (b) improve the control environment in governments by strengthening internal audit capacity, (c) foster integrated financial reporting, and (d) facilitate knowledge transfer leading to the adoption and implementation of International Public Sector Accounting Standards (particularly in countries from moving from cash accounting to accrual accounting in the public sector), which would enhance transparency and accountability for the use of the public funds in the Caribbean.\(^\text{13}\) This capacity would also be a first step toward addressing its next greatest

\(^\text{11}\) The Bahamas, Barbados, Guyana, Jamaica, and Trinidad & Tobago PAOs are full IFAC members; their counterparts in Belize, the members of the OECS, and Suriname are not. However, the non-IFAC members are actively striving to become IFAC members and are aided in this endeavor by the regional umbrella entity, the Institute of Chartered Accountants of the Caribbean, to the extent that it is able.

\(^\text{12}\) Its Members are the Institutes of Chartered Accountants of The Bahamas, Barbados, Belize, Guyana, Jamaica, Trinidad & Tobago, and OECS. The Suriname Association of Accountants (SUVA) is an Associate Member.

\(^\text{13}\) It is clear from a review of regional efforts to comply with IFAC’s SMO 5 (*International Public Sector Accounting Standards and Other PSC Guidance*) that PAOs find supporting government efforts for IPSAS
challenge: ICAC needs a more robust resource mobilization strategy if it is to secure its future as a productive force for the profession in the region, and this in turn requires that it deliver more value-added to its members. Finally, ICAC needs more up-to-date facilities, particularly on the electronic communications front.

14. ICAC and its members should foster efforts to increase the number and access of qualified accountants in the region, particularly in countries facing a critical shortage. Three such measures would be to (a) promote reciprocal recognition agreements so as to foster the free movement of accountants in practice within the region for those with a Caribbean Community (CARICOM) passport,14 (b) encourage member institutes to collaborate with country training institutions and governments to ensure there are increased numbers of affordable institutions training students in entry requirements to the accountancy profession, and (c) monitor training institutions to ensure that the quality of training, course materials, and curricula are up to date, so that PAOs benchmark quality with IFAC’s Education Standards. A key long-term objective should be to increase the number of qualified local accountants, to support the growing private sector and to meet the increasing demand for accountants in the public sector.

15. Governments across the region should strengthen efforts to update national institutional and legal modalities and regulatory capacities, drawing on the knowledge and experience of national PAOs and ICAC. The country statutory frameworks must have adequate and robust financial reporting requirements aligned to international standards and codes (IFRS, IFRS for SMEs, IPSAS, etc.), and these must keep abreast of evolving requirements, whether codified in law or through regulation, and ensure implementation of standards and effective monitoring of the profession.

adoption a major challenge—although the larger challenge is the reluctance of governments to invest the resources to establish a more transparent financial reporting framework.

Although accountants in business can move throughout the region and work without local PAO membership, this is not the case for those in practice. As IFAC has noted, “Members bodies within and outside the region currently do not have a system of mutual recognition of the qualifying requirements to become a member of individual jurisdictions. The requirements vary from jurisdiction to jurisdiction. Due to small size of some members, country economies of scale could be achieved by members of ICAC if there was mutual recognition of the professional development and learning requirements of each ICAC member. The key success factors here are collaboration with other institutes and equivalent bodies with mutual interests to share resources.” See Action Plan Developed by the Institute of Chartered Accountants of Jamaica, April 2013, page 5, at http://www.ifac.org/about-ifac/membership/compliance-program/compliance-responses. Moreover, such a proposal is fully in keeping with Article 45 of the Revised Treaty of Chaguaramas (the foundational document establishing CARICOM), which states that the number one goal of the community is the “… free movement of nationals within the community.” See “Regionalism Among Small States—Challenges and Prospects: The Case of the Caribbean Community (CARICOM),” Wendy Grenade and Kai-Ann Skeete, Small States Digest. Issue 1, 2015, page 20.
16. ICAC member institutes must support the adoption and successful implementation of differentiated financial reporting. This will result in PIEs being mandated to report in terms of IFRS while reducing the cost of compliance for SMEs and micro entities by requiring them to report in terms of IFRS for SMEs or the Guide for Micro-Sized Entities, respectively.

17. Small and resource-constrained accountancy bodies in the region should engage and collaborate with bigger and stronger bodies to benefit from “peer learning,” since they share the same goals (e.g., to strengthen capacity, increase membership, develop regulatory capacity, and build strong governance and administrative structures). ICAC should continue to identify “peer learning” opportunities and facilitate collaboration and mentoring.

18. ICAC should strengthen its technical capacity to ensure it is sustainable and has impact. A strengthened secretariat would enable ICAC to better provide its members technical support, such as participating in standards adoption processes and standards implementation activities, assisting members to fulfill their IFAC membership obligations, etc. It will also enable ICAC to partner with IFAC, the International Accounting Standards Board, World Bank, etc. to undertake knowledge activities and offer technical assistance to institutes and the public. These activities, if well implemented, will raise revenue for the institute and the institute’s profile.

19. ICAC, in association with its PAO members, must work closely with IFAC’s Small and Medium-Size Practice Committee to strengthen SMPs and enhance the national PAOs’ support to their SMP members. ICAC should make the various publications produced by the SMP Committee available to regional SMPs, including the guideline on how to manage a small practice. ICAC should also develop services tailor-made to serve SMPs, including a technical help desk.

20. CARICOM, the Caribbean Organization of Supreme Audit Institutions (CAROSAI), and ICAC would benefit if a partnership program could be developed centered on strengthening the profession’s ability to assist national government efforts to enhance PFM frameworks and practices. ICAC would thus be better positioned to assist its constituent members—for example, with practice monitoring of audit, and training/updating on IFRS and International Standards on Auditing (ISA)—and to support the efforts of its regulatory/oversight partners (for example, supreme audit institutions, national audit offices, etc.). Few institutions fail to benefit from closer links with political leaderships. In addition, certainly few institutions associated with the financial sector fail to benefit from more regular interactions with ministries of finance, central banks, and relevant parliamentary oversight committees. More critically, strengthened oversight leads to a reinforced profession and to meaningful accountancy products; the latter not only foster investment (by providing more detailed, comparable, and reliable financial statements), they also provide more and better data to Parliamentary Public Accounts Committees (PACs), which in turn typically lead to better national budgeting frameworks and practices (in turn fostering domestic and foreign investment for state-owned enterprises). And CARICOM would
be institutionally invigorated by activating a standing committee on the accountancy profession within the context of fostering a stronger investment climate for private sector-led growth and employment. An active accountancy committee would in turn naturally strengthen the profession (at the regional and national levels), the various national PACs, and the region’s economic prospects—all while fostering meaningful harmonization and integration at the regional level.\(^{15}\)

21. The future of independent regulation of the accountancy profession in the Caribbean needs to be defined in the context of global developments. A decision has to be made whether to continue with the current pattern of self-regulation or, at some point further down the road, introduce an independent regulatory body at the regional level, with the active involvement of ICAC. In making the decision, current trends in terms of which arrangement better protects the public interest will need to be considered.

22. Indicative Action Plans. The Indicative Action Plans immediately below identify the most pressing needs reflected through the prism of existing capacity challenges facing the Caribbean governments and the profession—leaving prioritization to the respective actors/levels of the profession, who are best placed to make that determination. With respect to the national plan ‘menu,’ clearly not every item will necessarily be applicable to every country; equally clearly PAOs (and ICAC) cannot be the determinative agency in items A-C, although their advocacy for these items can accelerate their progress. In addition, in the case of recommendations that involve general actions, specific steps will have to be determined as is necessary to achieve the intended outcomes.

\(^{15}\) Significantly, the February 2014 “Strengthening Parliamentary Budget Oversight in the Caribbean” workshop sponsored by ParlAmericas—which was attended by parliamentarians (including several PAC Chairs) and heads of Supreme Audit Institutions in the region—recommended liaising with CARICOM to coordinate efforts to improve PACs in the region, and coordinating with CAROSAI to address challenges to audit offices in the region. In both cases, it would seem that there would be value in including the Commonwealth Parliamentary Association Branches of the Caribbean, the Americas, and the Atlantic Region (CPA CAA) Secretariat in such efforts. The current CPA CAA Regional Secretary/Treasurer is Mrs. Heather Cooke, who has served as the Clerk of Jamaica’s House of Parliament since 2006.
## Menu of Proposed Reform Actions at the National Level

A. Prepare a national strategy for the development of a sound and well-functioning Corporate Financial Reporting Regime, including the cost of its implementation.

B. Strengthen the capacity of national regulatory bodies and oversight entities to ensure compliance with financial reporting standards and/or foster better accounting and budgetary capacity for the use of public funds.

1. *Capacity of the FSC, SEC, and the Stock Exchange, etc.* Rationalize and strengthen the focus of the Financial Services Commission, Securities and Exchange Commission (SEC), and Stock Exchange for effective review and monitoring of financial reports and the financial market, and provision of feedback to listed companies and the public. In doing so, seek to avoid duplication of efforts between the various regulators.

2. *Financial Reporting Oversight Board.* Establish a Financial Reporting Oversight Board drawing members from the Central Bank, Securities and Exchange Commission, Ministry of Finance, Chamber of Commerce, and professional accountancy organization (PAO). The Ministry of Finance would need to provide adequate resources to enable the Board to be effective and implement its mandate.

3. *Monitoring capacity of the Central Banks.* Further strengthen the capacity of the Central Bank for effective review and monitoring of the financial reports and provision of feedback to financial institutions. The Central Bank should identify qualified accountants from its current staff and develop the key technical skills for conducting effective and independent review of the financial statements of financial institutions.

4. *Capacity of the Ministry of Finance.* Strengthen the capacity of the SOE unit in the Ministry of Finance to monitor and enforce financial reporting requirements in SOEs. In addition, build Internal Audit capacity.

C. Amend the law and regulations to further improve financial reporting requirements and the quality of accounting and auditing products.

1. *Establish in law PIEs, SMEs, and micro-entities,* along with related accounting and auditing thresholds. Private limited companies should be required to appoint auditors. Develop a financial reporting framework for micro-entities. Auditors of any entity should hold PAO membership.


D. Strengthen the capacity of the professional accountancy organization to ensure compliance with financial reporting standards and to better fulfill the national professional role, including its responsibilities to members.

1. *PAO technical capacity.* Strengthen the technical capacity of the PAO, particularly to assist small and medium-size practice with respect to evolving international standards. Recruit a technical resource, establish critical committees, become fully compliant with IFAC Statements of Membership Obligations (SMOs), and promote IPSAS.

2. *Funding.* Develop a resource mobilization strategy to support an *active* PAO that adds value to its members and to the wider society.
3. *Increase PAO membership base and enhance image*, and fully comply with IFAC SMOs. The PAO should reach an understanding with the Government to foster membership for all public sector accountants so that they can update their knowledge by participating in CPD courses organized by the PAO, and so that the PAO has an expanded resource base.

4. *Outreach to educational institutions*. Further develop accountancy education in universities and tertiary educational institutions with a view to upgrading the curriculum in graduate programs, which should include IFRS, ISA, International Accounting Education Standards Board (IAESB) Code of Ethics, and IPSAS. Outreach is largely labor-intensive rather than capital-intensive, and it potentially offers quick, low-cost returns in the form of internship opportunities to counterbalance capacity constraints.

5. *Reciprocal recognition*. PAOs should work with their governments to promote reciprocal recognition agreements so as to foster the free movement of accountants *in practice* within the region for those with a CARICOM passport.

6. *PAO physical capacity*. Establish a PAO Center and develop its physical facilities for providing library, classrooms, conference rooms, and research facilities.

### Indicative Regional Action Plan for ICAC

1. *Technical and monitoring capacity*. Strengthen the technical capacity of ICAC, particularly its ability to support member PAOs with respect to evolving international standards and practice monitoring, and its ability to represent the region professionally. Establish a Technical Directorate in ICAC with adequate qualified staff who could provide a range of research and technical services to the public sector, financial sector, and also member bodies. The long-term goal would be an ICAC that could serve as a regional research/resource think-tank—as well as a monitoring entity for the profession.

2. *Funding*. Develop a resource mobilization strategy to support an active ICAC that adds value to its members and to the region.

3. *Support to PAOs and national governments*. Going forward, ICAC should be enabled to provide support to PAOs and governments through knowledge transfer (e.g., transmitting knowledge of IPSAS to each, ultimately leading to its adoption and implementation).

4. *Reciprocal recognition*. ICAC should work with PAOs to promote reciprocal recognition agreements so as to foster the free movement of accountants *in practice* within the region for those with a CARICOM passport.

5. *Physical capacity*. Develop ICAC’s physical facilities for providing library, classrooms, conference rooms, and research facilities.

6. *CARICOM and CAROSAI*. Establish a partnership program with CARICOM and CAROSAI, and work jointly with national PAOs and Parliamentary Public Accounts Committees (PACs) to strengthen accounting, auditing, and budgeting practices throughout the region.
STRENGTHENING FINANCIAL REPORTING REGIMES AND THE ACCOUNTANCY PROFESSION AND PRACTICES IN SELECTED CARIBBEAN COUNTRIES

I. INTRODUCTION

1. The main objectives of this report are to (a) provide a synthesized analysis of financial reporting and auditing standards and practices across the countries in which the Institute of Chartered Accountants of the Caribbean (ICAC) is active and (b) provide a basis for recommendations to ICAC and respective national institutes for a regional strategy to enhance the accounting profession and the accounting and auditing practices in the public and private sectors. This report’s focus on reforms and identification of areas and means to strengthen the accounting profession have at their root the conviction that systemic enhancements to the standards and practices of the profession can materially improve the lives of the region’s populace, particularly its less prosperous citizens, through greater transparency, strengthened economic growth and its attendant employment and tax revenue prospects, and greater access to financing for and formalization of the region’s dominant sector—micro, small, and medium-sized enterprises (MSMEs).

2. The report finds that a constraint limiting both investment across the region, particularly to MSMEs that characterize the respective national economies, and the efficient use of public resources is the accounting and auditing practices and the financial reporting regimes that prevail in both the public and private sectors. This finding emerges from (a) a review of Reports on the Observance of Standards and Codes for Accounting and Auditing (ROSC A&A) conducted by the World Bank for Jamaica, Trinidad & Tobago, Suriname, and the countries of the Organisation of Eastern Caribbean States, and (b) Bank missions to those countries updating the ROSC findings as well as missions to countries that have not yet had ROSC A&A reviews (during which the Bank team met the national accountancy body, regulators of entities that fall within the financial reporting chain, supreme audit institutions, central banks, and so forth so as to secure information that would typically be found in formal ROSC A&A reports).

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1 This review covers 16 countries or territories: the Bahamas, Barbados, Belize, Guyana, Jamaica, Suriname, Trinidad & Tobago, and members of Organisation of Eastern Caribbean States (Antigua & Barbuda, Dominica, Grenada, Montserrat, St. Kitts & Nevis, St. Lucia, St. Vincent & Grenadines, Anguilla, and the British Virgin Islands).

2 As one element of the 12-module (as of the time this study was undertaken) Report on the Observance of Standards and Codes (ROSC) initiative conducted by the World Bank and IMF, the World Bank established a program to assist its member countries in implementing international accounting and auditing standards so as to strengthen their financial reporting regimes.


4 Annex 1 details the mission consultations.

5 Since this is a synthesis report that principally centers on common regional characteristics (while nonetheless including country-specific data and examples) it does not precisely follow the format of a formal ROSC report, but it nonetheless highlights similar content; it also differs from a formal ROSC report in that it proposes Action Plans to address identified challenges, at least in part, at a regional level that fosters integration.
3. **Report Outline.** Following this introduction, Chapter II discusses the region’s key politico-economic institutions, describes the region’s economic situation (notably including its debt and growth challenges), and outlines the region’s relevant financial and institutional settings. Chapter III analyzes the current status of the profession at both the national level (with a synthetic rather than country-by-country focus, emphasizing features common to many of the states) and regional level (as expressed through the role, aims, and challenges of the regional accountancy body, the Institute of Chartered Accountants of the Caribbean). Chapter IV outlines key reform actions to strengthen the practices and institutions that constitute the profession, while Chapter V proposes a regional accountancy strategy that covers all the key stakeholders and provisionally lists some limited priorities (as a ‘menu’ from which professional accountancy organizations may select), bearing in mind the need for selectivity and sequencing in resource-challenged environments.

4. Recognizing the considerable advances of the profession and its respective institutes across the region in the last decade, this report identifies the challenges of, and capacity-building opportunities for, the accountancy profession in the Caribbean, so as to foster its development and improve regional corporate financial reporting, including in the public sector. More reliable, detailed, comparable, and transparent financial reports prepared by corporate entities, financial institutions, and state-owned enterprises (SOEs) should facilitate greater investment in the region and foster private sector-led growth and shared prosperity. The process should also foster regional harmonization and integration of the profession, including developing a common model of regulation for corporate sector accounting and auditing. Broadly, the recommendations to enhance accounting and auditing practices and the profession itself embrace the following:

- **Supporting the governance agenda of ICAC and the country professional accountancy organizations (PAOs).** This will be addressed through recommendations aimed at (a) enhancing the institutional capacity of ICAC and the country PAOs; (b) improving the quality of accountancy education and training, including continuing professional development (CPD) activities; and (c) strengthening the regulatory framework for monitoring and governing the accounting and audit practices in member countries.

- **Regional integration.** By providing inputs for strengthening and harmonizing accounting and auditing practices in the region, the report aims to contribute to the countries’ economic integration agenda.

- **International accountancy bodies.** The report also identifies areas in which international accountancy bodies active in the region may assist in the capacity development and strengthening of ICAC and country institutes.

- **Approach to regulation of the profession.** The report provides analysis and advice with respect to the future role for ICAC in the regulation of the accountancy profession (i.e., whether the current practice of having the UK-based Association of Chartered Certified Accountants perform the review/monitoring functions on tripartite contractual arrangements with ICAC and individual country institutes should be maintained or whether the function of regulator should be moved to an independent accountancy profession regulator established at the regional level).

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6 These include the UK-based Association of Chartered Certified Accountants (ACCA), American Institute of Certified Public Accountants (AICPA), Certified Professional Accountants of Canada, and Institute of Chartered Accountants in England and Wales (ICAEW).
II. REGIONAL CONTEXT

5. Most Caribbean states share some common features pertinent to this review. One such feature is the inherent challenge of being small states (vulnerability to economic shocks and natural disasters, economies that are simultaneously open and unable easily to diversify, and the challenge of indivisibility—i.e., despite their small populations they must still provide the full panoply of institutions and social services of countries with far larger populations and economies, and they thus face enduring capacity challenges). The states also face the challenges of erosion of trade preferences, integration into the global economy, climate change, and high debt levels that constrain growth opportunities.

6. The aspirations of Caribbean countries for greater integration center on a number of key politico-economic regional groupings. The most prominent of such groupings is the Caribbean Community (CARICOM) and its CARICOM Single Market and Economy (CSME). Another key grouping, which dates from 1981, is the Organisation of Eastern Caribbean States (OECS), whose nine members (listed in footnote 1) cooperate on defense issues, international diplomacy, and economic policies (including through the Eastern Caribbean Currency Union and the Eastern Caribbean Central Bank). Other key regional entities/initiatives pertinent to this review include the Institute of Chartered Accountants of the Caribbean, the Caribbean Organization of Supreme Audit Institutions (CAROSAI), and the Caribbean Growth Forum.

A. Growth and Debt Challenges in the Caribbean

7. Caribbean countries have shared in recent years an economic growth that has surpassed that of the rest of the Latin America and Caribbean region (LAC). The Caribbean started to outpace the growth of the rest of LAC in the mid-1990s and grew at impressive rates during the years just before the beginning of the global financial crisis. From 1996 to 2008, the Caribbean economy grew at an average annual rate of 4.6 percent, with the highest growth in Trinidad &

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7 The population size/indivisibility/capacity challenge of small states prima facie argues for consideration of regional approaches, notably including in education (e.g., not every country needs a full-range university system), regulation (e.g., financial supervision, air traffic control, etc.), and other complex endeavors that demand highly technical skills.

8 CARICOM was established, through the Treaty of Chaguaramas, in 1973 with four Members. Today it is comprised of Member states (Antigua & Barbuda, The Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Haiti, Jamaica, Montserrat, St. Kitts & Nevis, St. Lucia, St. Vincent & the Grenadines, Suriname, and Trinidad & Tobago) and Associate Members (Anguilla, Bermuda, British Virgin Islands, Cayman Islands, and Turks & Caicos). The CSME was initially implemented in 2006. Of the 15 full Members of CARICOM, Montserrat is a CSME signatory but has not yet received UK approval for membership (however, CARICOM treats it as a CSME Member). The Bahamas and Haiti are not CSME Members.

9 Among CARICOM’s stated objectives is “coordinated economic development and convergence … with enhanced functional co-operation, including more efficient operation of common services and activities …” This objective dovetails with the more drilled-down founding objective of the region’s umbrella organization of accountancy bodies, the Institute of Chartered Accountants of the Caribbean: “ … promote and harmonize regional accounting and auditing standards as well as company laws and taxation legislation among member territories.”

10 ICAC was established in October 1988. Today, with seven member institutes and a network of approximately 3,700 accountancy professionals, ICAC is the leading regional organization dedicated to advancing the interest of accountants within the Caribbean.

11 The Caribbean Growth Forum (CGF) is a joint initiative of the Inter-American Development Bank (IDB), the World Bank, the Caribbean Development Bank (founded 1970), and the Compete Caribbean Program (a private sector development program supported by IDB, Canada, and the UK).
Tobago (7.6 percent), Belize (5.2 percent), Antigua & Barbuda (4.9 percent), and Grenada (4.0 percent).\(^\text{12}\)

8. However, after earlier success, growth performance in most Caribbean countries has slowed, in many cases to less than that of relevant comparator countries. Income, rather than converging toward advanced country levels, has fallen further behind. Growth continues to be shaped by the global economic environment, which is still uncertain.\(^\text{13}\) In the OECS countries, the private sector is about two-thirds informal, concentrated on non-manufacturing activities, including wholesale, retail, real estate, construction, and services. There is a need to attract new private sector investment in the export-oriented tradable activities, including the development of firms, industries, and markets. Industries need to grow to reach a minimum critical mass to be competitive in the region and globally. These necessary developments require investor confidence, to which high-quality financial reporting contributes.

9. Debt has adversely and significantly affected growth in the Caribbean. Excessive debt (see Table 2) has discouraged further domestic and foreign investment and thus harmed growth.\(^\text{14}\) The ongoing fiscal crisis in the Caribbean has forced some countries to adopt stabilization programs that were in some cases supported by the IMF. This has led to marginal improvements in the fiscal deficit and debt in some countries in 2011-14. Nevertheless, the average deficit and debt remain elevated in a number of countries, with rising debt service payments consuming resources that otherwise could have been used for public investment.\(^\text{15}\)

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\(^\text{12}\) The rest of LAC and the world grew at rates of 3.3 and 3.0 percent, respectively. It is notable that despite the four leading growth rates identified above, the overall growth rate for the English-speaking Caribbean countries in this period was below the Caribbean-wide average, at 3.8 percent (perhaps because of a deceleration from 2006 to 2008).

\(^\text{13}\) The global financial crisis severely affected the economies of the Caribbean, especially those that depend heavily on services for economic growth. The aggregate cost of the crisis for the region has been estimated at 13.5 percent of Gross Domestic Product (GDP) in 2009. For many economies growth was not restored until 2011—in part because many countries in the Caribbean are constrained by limited fiscal space and debt overhang.

\(^\text{14}\) While the persistent fiscal and debt problem in the region is partly a reflection of pro-cyclical fiscal policy, it also reflects fundamental institutional weaknesses related to limited capacity for effectively managing public expenditure and matching this with revenues. Exacerbating this situation is the fact that the region is one of the most disaster-prone in the world. Costs associated with natural disasters are high, contributing to high debt and slow growth.

\(^\text{15}\) At the last two Caribbean Development and Cooperation Committees (CDCC) intergovernmental meetings and Caribbean Development Roundtables (CDRs), a number of countries requested the assistance of multilateral and bilateral donors in dealing with challenge of fiscal imbalance and large debt burdens.
Table 1. Caribbean Region; GDP, Growth, and Gross Public Debt, 2012

<table>
<thead>
<tr>
<th>Countries</th>
<th>GDP (US$, billion)</th>
<th>Real GDP Growth (%)</th>
<th>Gross Public Debt (% of GDP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Bahamas</td>
<td>8.2</td>
<td>2.5</td>
<td>52.6</td>
</tr>
<tr>
<td>Barbados</td>
<td>4.5</td>
<td>0.7</td>
<td>70.4</td>
</tr>
<tr>
<td>Belize</td>
<td>1.5</td>
<td>2.3</td>
<td>81.0</td>
</tr>
<tr>
<td>Guyana</td>
<td>2.8</td>
<td>3.7</td>
<td>60.4</td>
</tr>
<tr>
<td>Jamaica</td>
<td>15.3</td>
<td>0.9</td>
<td>143.3</td>
</tr>
<tr>
<td>Suriname</td>
<td>5.1</td>
<td>4.0</td>
<td>18.6</td>
</tr>
<tr>
<td>Trinidad &amp; Tobago</td>
<td>23.8</td>
<td>0.7</td>
<td>35.7</td>
</tr>
<tr>
<td>Eastern Caribbean Currency Union</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Anguilla</td>
<td>0.3</td>
<td>0.5</td>
<td>21.2</td>
</tr>
<tr>
<td>• Antigua &amp; Barbuda</td>
<td>1.2</td>
<td>1.0</td>
<td>97.8</td>
</tr>
<tr>
<td>• Dominica</td>
<td>0.5</td>
<td>0.4</td>
<td>72.3</td>
</tr>
<tr>
<td>• Grenada</td>
<td>0.9</td>
<td>0.5</td>
<td>105.4</td>
</tr>
<tr>
<td>• Montserrat</td>
<td>0.1</td>
<td>2.0</td>
<td>4.3</td>
</tr>
<tr>
<td>• St. Kitts &amp; Nevis</td>
<td>0.7</td>
<td>0.0</td>
<td>144.9</td>
</tr>
<tr>
<td>• St. Lucia</td>
<td>1.3</td>
<td>0.7</td>
<td>78.7</td>
</tr>
<tr>
<td>• St. Vincent &amp; the</td>
<td>0.7</td>
<td>1.2</td>
<td>68.3</td>
</tr>
<tr>
<td>Grenadines</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Sources: World Economic Outlook; International Financial Statistics; and IMF calculations.

10. A strong growth agenda is critical for the Caribbean. Growth is essential to address fiscal, external, and financial weaknesses. Measures to restore competitiveness would help boost growth and would include reining in cost pressures by reducing labor market rigidities, addressing infrastructure bottlenecks, restraining public expenditure, improving the business environment to facilitate trade and investment, and strengthening laws and institutions to improve governance (including financial regulation and high quality corporate financial reporting). High quality (comprehensive and reliable) financial reporting contributes significantly to fostering competitiveness and to domestic and foreign investment, which in turn yield employment gains and a broader tax base to, among other things, finance key social services and safety nets for the poorer and more vulnerable members of society.

B. Regional Financial and Institutional Settings

11. This section outlines features common to the region’s financial and institutional architecture that are relevant to the accountancy profession. The Annexes that follow the main report provide greater detail on specific circumstances in each country.

i. Financial and Economic Structures

12. The financial sector in the Caribbean is large and is dominated by banks. Total assets of the financial systems in the region average 320 percent of GDP, with 149 percent held by banks.16 Broadly, there remain challenges in most sectors of the financial system, including those emanating from poor supervision, although there are signs of increasing progress in the aftermath of the collapse of CL Financial in 2009. The banking sector in the region generally would benefit from strengthened regulatory and supervisory frameworks, including for financial reporting. This is more so for credit unions, which are a significant factor in the financial sector, with high

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16 IMF 2013 figures.
penetration and, in some countries, very large assets. More than one-third of the population in the region is a member of a credit union (the figure reaches two-thirds in Eastern Caribbean Currency Union countries). Given these figures, it is significant that in many Caribbean states, nonbank institutions, including insurance companies and credit unions, are poorly supervised, have suboptimal governance and risk management practices, and are poorly capitalized.

13. Regionally, the SOE sector plays a significant economic role, provides public sector employment that accounts for a significant share of formal sector employment, and is under-regulated given its systemic importance. Although SOEs typically use IFRS, in many countries their financial statements are not prepared in a timely manner and audits of SOEs are notably tardy.

14. Regionally, the stock exchange/securities market is far from mature, and exhibits a considerable range in terms of stage of development—from The Bahamas, a significant offshore financial center, through countries with a senior and junior market (Barbados, Guyana, Jamaica, Trinidad & Tobago), to countries without even a rudimentary market. Where there is a market, its regulation (whether by a Securities and Exchange Commission or Financial Services Commission) also ranges fairly widely in terms of rigor and comprehensiveness.

15. Within the private sector, micro, small, and medium-size enterprises (MSMEs) are the predominant element in the region. They contribute significantly to employment, sustainable growth, incomes, and exports. They facilitate backward and forward linkages in the economies through the use of local raw materials, thus creating a more integrated economy at the country and regional levels. Apart from hotels, large-scale plantations, agriculture, and capital intensive mineral exploitation, the bulk of Caribbean firms are SMEs, which are increasingly manufacturing products and selling to global markets as well as buying/selling goods and services from/to global markets. One of the greatest challenges SMEs face in the globalization drive is lack of resources, including managerial and financial reporting skills. A survey by the Inter-American Development Bank and the Latin American Banks Federation shows that substantial obstacles still hinder financing to SMEs, the biggest being the level of informality in the sector. Slightly more than 25 percent of banks surveyed cited this drawback. Informality is associated with lack of credible information, particularly reliable financial information, rendering

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17 IMF 2013 figures.
18 In Trinidad & Tobago, for example, $21 billion is invested by the government in SOEs.
19 See SMEs in Latin America and the Caribbean: Closing the Gap for Banks in the Region, sixth edition, 2013. Also see “Facilitating SME Financing through Improved Credit Reporting: Report of the International Committee on Credit Reporting” (Draft Version for Public Comments, March 2014), which observes, “Creditors assess the creditworthiness of credit/loan applicants based on two basic criteria: their financial capacity or ability to repay a loan, and their willingness to repay the loan. Due to information asymmetries, however, not all necessary information to assess creditworthiness of applicants is available to creditors. … This problem is normally exacerbated in the case of SMEs, and is often a cause of the denial of loans and other forms of external financing to them. In this context, enabling and/or improving the flow of such credit-related data and other relevant financial information on SMEs can contribute in alleviating their financing constraints. In other words, ensuring creditors have easy access to accurate, meaningful and sufficient information on SMEs in a systematic and timely manner would enhance their ability to assess SME creditworthiness, and hence could improve SME access to financing.” [http://siteresources.worldbank.org/EXTFINANCIALSECTOR/Resources/282884-1395933501015/Facilitating_SME_financing_through_CR_public_comments_web.pdf](http://siteresources.worldbank.org/EXTFINANCIALSECTOR/Resources/282884-1395933501015/Facilitating_SME_financing_through_CR_public_comments_web.pdf).
it difficult for financial institutions to assess credit risk effectively. Thus, SMEs in particular, would benefit from high-quality financial reporting and auditing.

**ii. Statutory Framework**

16. Caribbean countries have diverse statutory financial reporting frameworks founded on systems that reflect their specific colonial heritages, ranging from quite limited and requiring urgent improvement to fairly developed and modern. Most Caribbean countries do not define in statute financial reporting and auditing standards, instead permitting the PAO to establish and enforce these standards. Thus, while most of the region’s PAOs formally recognize IFRS and IFRS for SMEs, for example, their application is frequently not directly based in law. In addition, there is some inconsistency across the region with respect to statutory and regulatory requirements, including the accounting and auditing standards to be applied. (Table 2 summarizes the regional status with respect to international standards.)

<table>
<thead>
<tr>
<th>Country</th>
<th>IFRS</th>
<th>IFRS for SMEs</th>
<th>ISA</th>
<th>Other internationally recognized standards</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bahamas</td>
<td>Adopted</td>
<td>Adopted</td>
<td>Adopted (by institute)</td>
<td>None</td>
</tr>
<tr>
<td>Barbados</td>
<td>Adopted</td>
<td>Adopted</td>
<td>Adopted (by institute)</td>
<td>Permitted if approved by the institute</td>
</tr>
<tr>
<td>Belize</td>
<td>Adopted and required for domestic banks while permitted for other companies</td>
<td>Permitted for other companies and SMEs or they can use full IFRS</td>
<td>Adopted (by Institute)</td>
<td>Permitted (mostly US GAAP and Canadian GAAP)</td>
</tr>
<tr>
<td>Guyana</td>
<td>Adopted</td>
<td>Adopted</td>
<td>Adopted (by institute)</td>
<td>None</td>
</tr>
<tr>
<td>Jamaica</td>
<td>Adopted 2000. Mandatory for regulated companies only</td>
<td>Adopted</td>
<td>Only mandatory on auditors who are members of ICAJ</td>
<td>None</td>
</tr>
<tr>
<td>OECS</td>
<td>No sub-regional adoption</td>
<td>No sub-regional adoption</td>
<td>No sub-regional adoption</td>
<td>None adopted at sub-regional level</td>
</tr>
<tr>
<td>Suriname</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>Netherlands GAAP permitted. In practice, hybrid frameworks are commonly used.</td>
</tr>
<tr>
<td>Trinidad &amp;</td>
<td>Adopted</td>
<td>Adopted</td>
<td>Adopted</td>
<td>None</td>
</tr>
</tbody>
</table>

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According to a study by the IFC and McKinsey and Company, 45-55 percent of the formal sector SMEs in emerging markets do not have access to micro and informal enterprises: 65-72 percent of all MSMEs in emerging markets lack access to credit. The size of the finance gap varies widely across regions and is particularly daunting in the Caribbean countries” [emphasis added]. Cited by Mr. R. Gandhi, Deputy Governor of the Reserve Bank of India, at a workshop organized by the Credit Rating Information Services of India, Ltd., on “Credit Risk and Problem Loan Management,” Goa, January 30 2015. See [https://www.bis.org/review/r150203c.pdf](https://www.bis.org/review/r150203c.pdf).
17. The legal framework for accountancy often does not ensure that IFRS and International Standards on Auditing (ISA) are directly mandated in law for the full range of financial institutions that operate in a country (including co-operative societies, insurance companies, other non-banking financial institutions, listed and non-listed companies, and public interest entities). A few countries in the Caribbean have not yet adopted IFRS or IFRS for SMEs (or fostered knowledge of the attendant “Guide for Micro-Sized Entities Applying IFRS for SMEs”21 and instead have minimal professional awareness campaigns and implementation assistance activities to assist preparers, regulators, and auditors in applying and checking compliance with applicable standards, while others are far more active on this front. The importance of MSMEs in the region requires the accountancy profession to promote differential reporting, whereby entities’ financial reporting frameworks reflect their status with respect to asset level and public interest impact. Contributing to an increased level of compliance by small entities will enhance their access to finance and gradually lead other small entities to operate according to formal norms, in turn leading to enhanced revenue collections that can support national governments’ provision of social services to their publics.

iii. Public Financial Management in the Caribbean

18. In most Caribbean countries, the public financial management (PFM) system is not yet fully mature and the national statutory frameworks and regulatory practices are generally not up to the standards of international best practice, despite good-faith efforts and recent advances. None of the countries employs a full accrual system of accounting, few have implemented the International Public Sector Accounting Standards (IPSAS), and most countries do not define in statute financial reporting and auditing standards, instead permitting the PAO to establish and enforce these standards. In addition, regulatory agencies lack sufficient capacity to fully protect the public interest or ensure the efficacy of public spending. Thus, state-owned enterprises (SOEs) are often insufficiently monitored, especially given the extent of public resources they consume; the rigor of government regulation of public interest entities22 (such as credit unions) that have fiduciary responsibility for a large section of the public remains limited; and the technical capacity of regulators (central banks, ministries of finance, financial services commissions; securities and exchange commissions, stock exchanges, and supreme audit

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21 The Guide is not a separate Standard for micro-entities, and hence does not require a separate formal adoption. It is intended to help micro-entities that are within the scope of the IFRS for SMEs to prepare general purpose financial statements in accordance with IFRS for SMEs. The Guide extracts requirements from the IFRS for SMEs without modifying any of the principles for recognition and measurement of assets, liabilities, income, and expenses, and without changing any of the presentation and disclosure requirements. It includes only those requirements of the IFRS for SMEs that are likely to be necessary for a typical micro-entity. Compliance with the Guide will result in compliance with the IFRS for SMEs.

22 Public interest entities (PIEs) draw at least some of their funding from public sources and have—because of the nature of their business or their size or the number of their employees—an impact on a substantial segment of the populace. Unlike most enterprises, PIEs are not defined by their sectoral affiliation or output/product, but rather by their potential for adverse impact, whether systemic or wide-ranging on the populace. Thus a PIE could be in the public sector (e.g., an SOE) or private sector, in the field of transport or water supply, a charity or a non-governmental organization, a listed company or not, purely domestic or one with international links. The classic case would be a financial institution that holds assets in a fiduciary capacity for a large number of stakeholders. See Annex 10 for a discussion of the intrinsic characteristics of PIEs, a review of the literature, and the experience in the Caribbean.
institutions) needs significant strengthening. Finally, the control environment in the public sector in most Caribbean countries needs significant strengthening: internal audit is typically suboptimal and not risk-based, the preparation of public accounts is often far behind schedule, and Parliamentary oversight of public finances is frequently incomplete. However, for an example of progress on the regulatory front despite capacity challenges, see Box 1.

**Box 1. Strengthening NBFI Regulation – A Good Practice from Guyana**

In 2014, Guyana embarked on the regulatory strengthening of the insurance and pension sectors to increase the solvency, governance, and depth of the sectors, in part stimulated by the 2009 collapse of CLICO Guyana, a systemic insurer with assets amounting to 3 percent of GDP, the collapse of which reduced the insurance market by 75 percent. The pension reform also needed to address key weaknesses of the voluntary private pension system: limited coverage (less than 4 percent of the labor force), a 10-year-long vesting periods (which particularly affected pensions for women), and a high rate of withdrawal. Partnering with the Central Bank and the Ministry of Finance, the World Bank provided a number of solutions to address deficiencies in the regulation of NBFI in Guyana. Under the “Supervision of Non-Bank Financial Institutions” Project, the Bank helped the Government of Guyana draft a new law strengthening the regulation and supervision of insurance companies, in line with international standards on insurance supervision, as well as new insurance regulations. Under the “Pension Regulation” Project, the Bank helped the Government draft a new pension law. In addition, the reform includes requirements for appropriate safeguards in the management of pensions, such as having a trustee and a custodian, to ensure that companies sponsoring pension plans do not misappropriate pension funds. Simpler pension products were created for employers who want pensions but do not have the time or expertise needed for traditional occupational pension provision. Although this is a notable step forward, to date the draft laws have not been passed by the Legislature.

19. While the aforementioned PFM challenges are common in the region, there are substantial variations in the extent of their impact across countries. One widely accepted measure of such impact is the Public Expenditure and Financial Assessment (PEFA) exercise, a diagnostic tool developed by a partnership program comprising the World Bank, the International Monetary Fund, the European Commission, UK’s Department for International Development, the French Ministry of Foreign Affairs, the Swiss State Secretariat for Economic Affairs, and the Norwegian Ministry of Foreign Affairs. Graph 1 depicts the PEFA assessment of selected Caribbean countries with respect to preparation of budget reports and annual financial statements.

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23 Typically, the challenges with respect to both PFM frameworks and regulatory entities reflect the absence of an overarching national framework for the development of an accountable and up-to-date profession able to support both private and public sector entities in the effective, efficient, and transparent use of scarce resources, so as to promote shared prosperity.
The PEFA Performance Measurement Framework identifies the critical dimensions of performance of an open and orderly PFM system such as the credibility of the budget; comprehensiveness and transparency of the budget process; policy-based budgeting; predictability and control in budget execution; accounting, recording and reporting standards and practices; external scrutiny and audit; and so forth. The ratings are ranked in descending order from A to D. For the above graph, D is treated by this report (as distinct from PEFA) as equal to 1, D+ is treated by this report as equal to 1.5, C is treated by this report as equal to 2, C+ is treated by this report as equal to 2.5, B is treated by this report as equal to 3, B+ is treated by this report as equal to 3.5 and A is treated by this report as equal to 5. The PEFA assessments are done in different years for different countries.

20. Given the aforementioned significant role in the economy played by SOEs in most Caribbean countries, effective regulatory oversight is crucial. Unfortunately, across the region the Supreme Audit Institutions (SAIs) that are constitutionally mandated to conduct audit of all public accounts lack adequate capacity to provide such oversight. As a consequence, there is suboptimal accountability and transparency for the use of public funds, which is fertile ground for their misuse. Thus, SOEs performance regionally is cause for significant fiscal risks for the economy, and include in some countries unreported expenditures in the budget (largely attributable to SOEs) that are quite significant. Graph 2, drawing on PEFA exercises, depicts fiscal risks, and unreported Government expenditures in selected Caribbean countries (the scoring scale is the same as described in Graph 1).
Graph 2. PEFA Ratings for Fiscal Risks and Unreported Government Expenditures

Graph - 2. PEFA Ratings for Fiscal Risks and Unreported Government Expenditures
III. THE ACCOUNTANCY PROFESSION: ITS ENVIRONMENT, REGULATORS, AND CLIENTS

21. A strong national or regional accountancy profession, internationally recognized and independently regulated, plays an important role in the functioning of modern economies. Sound financial reporting stimulates local and foreign investments that are made as a result of the confidence investors may have in the reliability and breadth of the information circulating in the market. Strengthening relations among the actors involved in the exchange of financial information will be achieved with proper oversight of behaviors, high-quality standards in audits, and encouragement for strengthened corporate governance—all of which require both external and self-regulation by a strengthened accountancy profession.  

22. High-quality financial reporting, strong oversight and regulation, and reliable accountancy products are beneficial on several levels. Sound reporting enhances risk mitigation efforts, notably by governments, which increasingly rely on public and private sector auditors to address the growing complexity of financial instruments and give an early warning of systemic risks. Empirical evidence supports the foregoing logical conclusions: a cross-country study on the contribution of legal and accounting systems found that legal and accounting reforms that strengthen creditor rights, contract enforcement, and accounting practices can boost financial intermediary development and thereby accelerate economic growth. Strengthened oversight leads to a reinforced profession and to meaningful accountancy products; the latter not only foster investment (by providing more detailed, comparable, and reliable financial statements), they also provide more and better data to parliamentary oversight committees, which in turn typically leads to better national budgeting frameworks and practices. More reliable, detailed, comparable, and transparent financial reports prepared by corporate entities, financial institutions, and SOEs should facilitate greater domestic and foreign investment in the region and foster private sector-led growth and shared prosperity.

A. National Professional Accountancy Organizations

23. The following criteria comprise the standards against which to measure the strength/weakness of a corporate financial reporting regime and the accountancy profession that implements the regime (also see Figure 1).

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24 Worldwide, the monitoring and enforcement of rules and standards is typically the weakest element of the corporate financial reporting infrastructure. Within this realm, enforcement is strongest in the financial sector (especially banking), where regulators have a stronger mandate and resources. Moving down the chain of corporate entities, from the most developed to the least, implementation of standards is greater in listed companies than in other large, non-listed companies. See Reports on the Observance of Standards and Codes – Accounting and Auditing: Lessons Learned and Future Directions, Financial Management Sector Board, World Bank, June 2011. This generalization continues to hold true for the Caribbean (see Accounting and Auditing in the Caribbean: A Synthesis Report on the Observance of Standards and Codes, Financial Management Unit, Operations Services Department, Caribbean Country Management Unit, Latin America and Caribbean Region, World Bank, December 11, 2013).

establishing adequate rules (i.e., the statutory framework embracing professional standards, quality, and ethics)

developing capacity to apply the rules (the foundation of which is the education and practical training for entrants into the profession)

ensuring compliance with the rules (i.e., a robust, independent regulatory function that ensures public accountability)

providing a sound basis for addressing evolving issues and standards (prominently including continuing professional development and, perhaps most critically, a resource acquisition strategy to underpin the profession’s functioning, independence, and technical adaptation).

Figure 1. Infrastructure for Quality Financial Reporting

<table>
<thead>
<tr>
<th>Pillars</th>
<th>Elements</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Setting adequate <strong>requirements</strong> – statutory framework, laws, regulations and standards for accounting, auditing and financial reporting</td>
<td>• Statutory framework&lt;br&gt;• Accounting standards&lt;br&gt;• Auditing standards</td>
</tr>
<tr>
<td>2. Developing <strong>capacity</strong> of regulators, standard setters, professional bodies and practitioners, and educational institutions to implement the requirements</td>
<td>• Education &amp; training&lt;br&gt;• Accountancy profession &amp; ethics</td>
</tr>
<tr>
<td>3. <strong>Enforcing</strong> requirements effectively</td>
<td>• Monitoring and enforcement</td>
</tr>
</tbody>
</table>

Source: Adapted from Accounting for Growth in Latin America and the Caribbean - Improving Corporate Financial Reporting to Support Regional Economic Development, Henri Fortin, Christopher Cutler, and Ana Cristina Hirata Barros, World Bank, June 2009.

24. This report’s focus on challenges and opportunities recognizes that compared to a decade ago, the accountancy profession in the region has made significant strides in almost all countries. This is most evident in the widespread adoption by the national professional accountancy organizations (PAOs) of IFRS, including those for SMEs, International Standards on Auditing (ISA), and the International Ethics Standards Board for Accountants (IESBA) Code of Ethics, and in their enhanced efforts in providing continuing professional development courses to members and other national stakeholders. Further evidence lies in the greater PAO affiliation with the International Federation of Accountants (IFAC) and steady (though varying) convergence toward IFAC’s Statement of Membership Obligations (SMOs), and in the enhanced role in all of the above of the efforts of the region’s umbrella accountancy body, the Institute of Chartered Accountants of the Caribbean (ICAC). In addition, ICAC recently initiated a practice monitoring program under a tripartite agreement with the UK-based Association of Chartered Certified Accountants and selected national accountancy bodies; this has the potential to
contribute substantially to strengthening the quality of audit produced by accountancy firms in the region, particularly the small and medium-size practices that predominate, although the effort falls short of being a fully independent monitoring process.

25. However, convergence with international best practice requires additional efforts to address shortfalls (whose extent varies to a considerable degree across the region), not least because international standards are constantly evolving and thus present a moving target that tests accountancy entities across the globe. Typically in the Caribbean, financial and technical capacity constraints seriously impinge on the profession’s ability to meet the evermore rapidly changing environment of the global marketplace, and the regulatory capacity of the national accountancy institutes to check, monitor, and enforce compliance needs strengthening.

26. The region has a significant shortage of qualified professional accountants (the shortage is particularly notable in Belize, Guyana, and Suriname). This shortage is reflected in the following: the ratio of professional accountants per thousand population is 0.07 in Suriname compared to 0.44 in The Bahamas, 0.81 in Trinidad & Tobago, 0.92 in Mauritius, 2.54 in Barbados, 2.74 in Singapore, and 3.68 in Malta. Stakeholders in those jurisdictions with the fewest accountants regularly cite this as a problem, even in cases where the quality of the accountants is as high as those in the more developed jurisdictions.

27. Organizationally, the accountancy profession in the Caribbean is fragmented into small, capacity-challenged PAOs serving their respective countries, with ICAC as the umbrella regional body. The large number of small and capacity-constrained PAOs, which have limited horizontal cooperation and collaboration with regional counterparts (in part because of poor and high-cost air transport links and limited IT capacity to easily video-conference), either undercuts the ability to engage in standard development activities with international standards-setters (e.g., commenting on “exposure drafts” and “invitations to comment”) and implement international standards, or leads to duplication of some functions that could be better managed at the regional level (e.g., regional quality assurance reviews). There would be value to consolidating some of the functions of these institutes at the regional level under ICAC, to reduce unnecessary duplication and gaps and achieve economies of scale.

28. The profession faces an environment characterized by increasingly complex financial instruments, immensely shortened timeframes of market decisions, and heightened demands by governments to give early warning of, and prevent, systemic risks—expressed as more comprehensive, transparent, and comparable financial reporting and analysis. In short, the demands on the profession are expanding exponentially, clearly outpacing resources: the bare minimum response must be the achievement of efficiency gains, which in principle argues for regional harmonization of standards and oversight. Three suggestions can be extrapolated from the recent International Conference on Legislative Oversight to Foster Accountability, Transparency, and Development:27 (a) functional cooperation through a professional support staff that could rotate among countries, perhaps starting with a technical expert in IPSAS; (b) developing a regional legislative framework to govern state enterprises, which across the region.

26 Source: CIA Fact Book 2010, and websites of various accountancy bodies.
consume a significant share of public spending, often in the absence or substantial delay in the submission of financial statements; and (c) strengthening the Caribbean Organization of Supreme Audit Institutions (CAROSAI) in order to mitigate the small size of many SAIs in the region.

29. Measured against its environment and the criteria outlined above, suboptimal compliance, enforcement, and sanction characterize the regulation of accounting, financial reporting, and auditing practices in the region. Broadly speaking, the most evident challenges in the region are (a) the application of the rules and regulations to SOEs, MSMEs, and PIEs (however, see Box 2 for a good faith, good practice counter example); (b) regulatory capacity and independence; and (c) financial and technical capacity constraints that seriously impinge on the profession’s ability to meet the evermore rapidly changing environment of the global marketplace. The following paragraphs in this section identify the major challenges facing PAOs. Significantly the following assessments implicate (though to a lesser degree) even the region’s most institutionally developed, upper-middle-income, low GDP/debt ratio outliers, underscoring the capacity challenges that confront the best in the profession.28

28 It should be emphasized the country examples that follow are not a criticism, far less a condemnation. The examples are generally selected from among the pool of region’s most highly developed, active, and influential PAOs: the point is not lack of initiative or competence, but of resources.
Credit unions are key players in the financial sector of countries that are members of the Organisation of Eastern Caribbean States (OECS), holding deposits for more than half of the working population, and primarily targeting low- and middle-income groups. Although these institutions are the main vehicle of financial inclusion, most local jurisdictions provided little or no regulation, prudential oversight, or customer protection mechanisms. Thus, the savings of economically vulnerable populations were potentially at risk. (Many credit unions do not have external investors who bring financial and/or governance discipline to operations.) While the orientation of credit unions serves populations that may otherwise be excluded from financial services, this is no excuse for weak financial oversight. Recognizing their limited institutional and regulatory capacity as a risk for vulnerable populations, OECS governments, working with the Eastern Caribbean Central Bank (ECCB), initiated regulatory reform of the non-banking financial sector (review of regulatory arrangements, drafting of harmonized legislation, preparation of prudential and financial reporting requirements, development of standards and supervision manuals, and training of regulators and industry professionals). Recognizing the complex technical nature of this sub-sector, and its systemic importance to their societies, the OECS reached out to the Caribbean donor community seeking to leverage its international experience and expertise.

Thus, in 2008, the World Bank conducted a comprehensive Report on Standards and Codes (ROSC)—assessment of accounting and auditing practices in OECS countries, paying particular attention to the state of the non-banking financial sector. Report recommendations provided a basis for preparation of a $445,000 grant-financed technical assistance project focused on non-banking financial institutions in six OECS countries, implemented through the ECCB, with strategic and technical guidance provided by the regional oversight committee comprising financial sector regulators and technical experts coming from all six OECS countries.

At the country-level, joint on-site inspections were conducted in four OECS countries, targeting larger, potentially riskier, credit unions holding significant shares of population deposits. (For some of the visited institutions this was the first ever on-site inspection.) These interventions provided key insights into sectoral practices, while enabling supervisors from different countries to collaborate and share knowledge as a result of the process’ cross-jurisdictional nature. It also helped OECS authorities assess the systemic risk and tailor mitigating measures (including adjustment of accounting and financial policies, staff training, and a stronger regulatory framework), thus providing much-needed protection and assurance to the OECS population.

Also at the OECS level, the project supported development of comprehensive financial regulations and supervision manuals and delivered (jointly with the International Financial Reporting Standards Education Foundation) a comprehensive training program focused on financial and prudential reporting requirements for regulators and industry practitioners. The project also helped prepare and implement medium-term strategic plans guiding development of oversight and regulatory practices in the non-banking financial sector.

The bottom line? The savings of economically vulnerable populations are now more secure, as they reside in institutions with higher standards of accounting and financial reporting and enhanced consumer protection mechanisms, and are overseen by strengthened regulatory entities, which collectively provide an enhanced early warning of systemic risk.

30. The financial and technical capacity of PAOs is limited, with the result that they cannot fully execute their stated responsibilities, such as helping their members meet the International Federations of Accountants (IFAC) Statements of Membership Obligations (SMOs), to say nothing of supplying comments on draft proposals to the international standards-setting bodies. To take but one example from the pool of most developed and active institutes, the Bahamas Institute of Chartered Accountants (BICA) has implemented four of the seven SMOs, with another partially implemented (falling short with respect to SMO 5, IPSAS, and SMO 7, Quality Assurance), while three of the PAOs reviewed are not yet full IFAC members, although they are
actively working toward that status, supported by ICAC. The challenge of technical capacity even includes the Institute of Chartered Accountants of Barbados (ICAB), which has self-identified this as one of its leading shortcomings.

31. In some instances, the independence of auditors is not ensured, as capacity constraints (particularly in SMPs) and the prevalence of MSMEs (who frequently disparage the full range of auditor requirements) sometimes result in auditors undertaking the accounting work that they are reviewing. Throughout the Caribbean the numerical dominance of MSMEs in the private sector and the impediments of informal make this an enduring challenge for professional rectitude.

32. Robust quality control cannot easily be instituted a single-member practicing firm or a particularly constrained SMP unaffiliated with an international counterpart, especially in the context of the lack of independent practice monitoring. Across the region in countries where Big 4 firms operate, there is consistent private sector stakeholder depreciation of the quality of audited financial statements undertaken by SMPs in the absence of monitoring. Of course, this commentary may contain an element of stereotyping, and ignores the fact that even those entities that are affiliated with international accountancy companies are frequently themselves SMPs (although these can more readily access external resources than independent SMP practitioners). To address the issue of quality control, several PAOs have participated in a tripartite practice monitoring program with ICAC and the Association of Chartered Certified Accountants (ACCA), and they have established Regulatory Committees to receive and address the practice review reports. This development is one of the strongest signs of progress in the profession in the Caribbean.

33. Notwithstanding this recent and significant progress, quality control at firm and engagement levels can be improved, particularly in unaffiliated SMPs. The absence of independent practice reviews and related monitoring and disciplinary procedures adversely affect audit quality in the eyes of some stakeholders (see paragraph 46 and accompanying footnote 45 for a fuller discussion of the issue of independent review and monitoring). It is noteworthy—both with respect to the region and to Jamaica—that in the Caribbean only Jamaica has a fully independent regulator of the profession (see Box 3). However, from the perspective of national PAOs, the issue of the lack of fully independent oversight or questions of audit quality (which have emerged in the first round of the practice monitoring reviews) may well be outweighed by the more practical concern with resources: with practice monitoring supervision missions averaging $22,000 there is a substantial burden imposed on national professional accountancy organizations. Thus, for example, in 2012 and 2013 the second-largest expenditure category for the Institute of Chartered Accountants of Guyana (ICAG) was practice monitoring. For its part, IFAC has noted that while “[t]he establishment and effective implementation of the regional practice monitoring system is critical to the sustainable achievement of quality control assurance

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29 Across the region, only Jamaica has a fully independent regulator of the profession affiliated with the International Forum of Independent Audit Regulators (IFIAR).

30 More accountants in the region have their international affiliation with the UK-based ACCA than with any other international accountancy body (though this does not hold uniformly true throughout Caribbean jurisdictions). ACCA, through its support for CPD and practice monitoring (among other things), has contributed significantly to the profession’s development within the region.

by practicing members … [a]nother critical … area is the requirement for adequate training of practitioners at cost effective rates on a sustainable basis” [emphasis added].

34. In many countries the regulatory reach of the national accountancy institutes to check, monitor, and enforce compliance needs strengthening; in some cases the institutional capacity is almost entirely lacking, while even in the best cases the gap between the number of PAO members compared to the total number of accountants active in the country limits regulatory reach and disciplinary leverage. Once again taking the example of one of the most advanced PAOs in the region, the Institute of Chartered Accountants of Trinidad & Tobago (ICATT) at end 2010 had 968 members (about 100 of whom were either resident overseas or retired); this represented less than half the qualified professional accountants active in the country. Countries, economies, institutes, and citizens would all benefit if the PAOs’ reach extended fully across the totality of active accountants.

<table>
<thead>
<tr>
<th>Box 3. Jamaica’s Public Accountancy Board – A Good Practice</th>
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<tr>
<td>Jamaica’s Public Accountancy Act was enacted in 1968; it established the Public Accountancy Board (PAB) to license the accountancy/auditing practice and regulate the profession in Jamaica. This was a highly visionary action taken by the Government of Jamaica with the support of the early members of the Institute of Chartered Accountants of Jamaica. Such an arrangement has not yet been implemented in many countries of the world and is not in place in any other Caribbean country. Indeed, the US and Canada had no independent regulator of the accountancy profession prior to the issues leading to the collapse of Enron and Arthur Andersen.</td>
</tr>
<tr>
<td>Although PAB was set-up in 1968, actual audit practice monitoring only began in 2012, as part of a regional initiative by the Institute of Chartered Accountants of the Caribbean (ICAC). In Jamaica, PAB contracted out the actual review to ACCA; its reviews render judgments on the adequacy of the working files, the standard of the audit plan, and other aspects of audit practice. To date, through ACCA, PAB has conducted 82 practice monitoring reviews involving 129 Registered Public Accountants: of these reviews, only 7 were rated satisfactory. PAB had anticipated that many practitioners would have an unsatisfactory first review (this outcome parallels the results that have emerged from the ICAC Practice Monitoring Program conducted in other Caribbean countries through their national accountancy bodies). Thus, the result of the first-time review is being used as a learning experience and to identify gaps where the Registrant needs to make improvement to ensure the quality of audit. PAB will be working with the Institute of Chartered Accountants of Jamaica (ICAJ) to conduct seminars/workshops to help Registrants improve their practices.</td>
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35. The potential for differential regulation and for regulatory arbitrage arise as a consequence of the fact that a country’s accountants enter the profession through various ways and are accredited and overseen (if at all) by external accountancy bodies in the absence of their joining the national PAO. It should be noted that there is consistent reportage from PAO officers that to date there is little evidence that this potential has been manifest in practice.

36. PAOs rarely require entrants to the profession to have passed examinations or otherwise demonstrate knowledge of national tax and corporate/business laws. Continuing with the example of ICATT, precisely because it is among the region’s most developed and active bodies: None of the professional accountancy bodies that provide training leading to ICATT membership offers full professional accreditation and examination in Trinidad & Tobago taxation, corporate,

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and business laws. Although some international accountancy bodies have in the past partnered with ICATT to offer brief tax training sessions, this does not equate to developing the professional knowledge to function adequately as an expert on the full range of local tax laws. ICATT members are therefore licensed to practice without being tested and passing these important local variant papers—which as yet do not exist in the Caribbean.

37. More generally, the quality and standard of education from entry level up to continuing professional development (CPD) in some countries does not yet fully comply with IFAC Education Standards. Although most PAOs have made progress on the CPD front in the last decade—critically including with respect to support to their SMP members—the intensity of this training and the degree to which it drills down on rapidly evolving standards remains a challenge.

38. In some countries, potential accountancy students lack access to affordable training institutions (this does not help mitigate the challenge of the shortage of qualified accountants) and in almost all countries there is insufficient attention by PAOs to building firm links with relevant universities, polytechnics, and for-profit training entities. Raising entry qualification standards is as important here as expanding the pool of candidates—and in fact is the predicate for raising the pool of qualified candidates.

39. Although a number of PAOs have joint student arrangements with some international accountancy bodies, once students pass that body’s accountancy requirements they have no automatic corresponding joint membership in a national PAO. This deprives the region’s PAOs of the benefits of a close alignment with the ‘parent’ accountancy bodies, and reduces the membership numbers of the national PAO—and thus the resources to strengthen the profession. It should be underscored that it is the responsibility of PAOs in the region to push for a full, reciprocal joint membership with international accountancy bodies.

40. The different regional institutes often seem to have closer links with international accountancy bodies than with their regional colleagues, hindering efforts to harmonize the profession on a regional basis. (Table 3 depicts the varying regional and international membership links.) Closer regional links directly between PAOs (as distinct from shared membership in ICAC) are constrained by the absence of reciprocal recognition agreements (which in some countries would require changes to national legislation) and capacity constraints (including the high costs of intra-regional travel). Significantly, the slowly emerging trend is

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33 This is evident in PAO Action Plans submitted to IFAC with respect to SMO 2, *International Standards for Professional Accountants and Other EDCOM Guidance*. In some instances, for example, the PAO does not conduct its own examinations and is not collaborating with tertiary institutions to ensure that accountancy education at these institutions produces graduates that meet the minimum International Education Standards (IES) 2: “Entry Requirements to a Program of Professional Accounting Education.” Also, monitored practical training requirements for PAO membership are not being reviewed by the PAO to ensure they are aligned with IES issued by IFAC or with its own requirements (PAOs often rely on the international accountancy body to which the applicant is affiliated—while the desired end result may thus be achieved indirectly, the process underscores PAO capacity constraints). Finally, in more than one instance, the PAO does not ensure that CPD topics cover new standards and changes to existing standards and that in all cases they meet the minimum requirements of IES 7: “Continuing Professional Development: A Program of Lifelong Learning and Continuing Development of Professional Competence.”

34 It is important to note, however, that such a proposal may not receive support from all such students, who may wish to avoid the membership fees of the national PAO, especially those students who are going to serve as bookkeepers, etc. in private business firms, as well as those who enter the public sector.
positive (thus, for example, the Institute of Chartered Accountants of Trinidad & Tobago recently provided assistance to its Surinamese counterpart to draft an Accountancy Act).

<table>
<thead>
<tr>
<th>Institute/Grouping</th>
<th>IFAC</th>
<th>ICAC</th>
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<tbody>
<tr>
<td>The Bahamas</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Barbados</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Belize</td>
<td>No</td>
<td>Yes</td>
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<td>Guyana</td>
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<td>Yes</td>
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<td>Jamaica</td>
<td>Yes</td>
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<tr>
<td>Trinidad and Tobago</td>
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<td>Yes</td>
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<tr>
<td>Suriname</td>
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<td>Associate</td>
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<tr>
<td>Institute of Chartered Accountants of the Eastern Caribbean</td>
<td>No</td>
<td>Yes</td>
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### B. Institute of Chartered Accountants of the Caribbean

41. Today, with seven full member institutes, one associate member, and a network of approximately 3,700 accountancy professionals, ICAC is the IFAC Acknowledged Accountancy Grouping for the region; it is dedicated to advancing the interest of accountants within the Caribbean through the promotion of internationally acceptable standards and best practices, thought leadership, research, and continuing professional development. ICAC was established under the laws of Jamaica and incorporated as a company on October 28, 1988. Its ambitious objectives at formation were to (a) develop a Caribbean professional accountancy examination for entry into the membership of the institutes within the region, and (b) promote and harmonize regional accounting and auditing standards as well as company laws and taxation legislation among member territories. If met, these objectives—the second of which is clearly more incumbent on Caribbean governments than ICAC—would significantly contribute to the achievement of the regional integration of the accountancy profession, and would promote the region’s economic growth. Unfortunately, a quarter of a century after its founding, ICAC has yet to achieve these two objectives. (It has since formulated other objectives, as described below.)

42. ICAC’s intentions align with those of IFAC and other international standards-setters. It supports the development of PAOs in the region by (a) promoting a quality assurance and monitoring program; (b) encouraging mentoring and collaborative partnerships among PAOs; (c) coordinating regional training and CPD programs (including institutionalizing practice monitoring on a regional basis); and (d) encouraging members to support the adoption and successful implementation of international standards.

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35. Its Members are the Institutes of Chartered Accountants in The Bahamas, Barbados, Belize, Guyana, Jamaica, Trinidad & Tobago, and OECS. The Suriname Association of Accountants (SUVA) is an Associate Member of ICAC. Affiliated with ICAC are the Association of Chartered Certified Accountants, the American Institute of CPAs (AICPA), Certified Professional Accountants of Canada, and the Institute of Chartered Accountants in England and Wales (ICAEW).


37. In June 2008 Barbados, Guyana, and Trinidad & Tobago signed tripartite practice monitoring agreements with ICAC and ACCA. These were followed by the ICAEC (2009) and Jamaica (2011), with the Bahamas shortly forthcoming. The first cycle of practice monitoring will conclude in December 2015 and the second cycle will begin in 2016.
43. ICAC’s institutional goals include (a) increasing its regional and international role and contribution, including by forging strategic partnerships; (b) broadening its membership base of ICAC; (c) strengthening its institutional and thought leadership capacity; (d) enhancing ICAC’s capacity to serve as a technical resource for its member bodies; and (e) ensuring its sustainability.

44. ICAC lacks the financial and institutional resources and technical capacity to fully support these goals or its original objectives. In a sense this is to be expected, as it merely replicates the situation of the member institutes that comprise the regional body. ICAC’s minimal Secretariat (only two staff) constrains its service delivery capacity, and its limited financial, research, and technical capacity precludes effective involvement in the full range of professional activities, from standards adoption processes to support for successful implementation of the adopted standards using in-house staff. The constraints under which it operates do not lead stakeholders, prominently including its members, to fully appreciate its potential role and significance at the country level and regionally. Some national institutes, especially when they are aspiring or full IFAC members, tend to question ICAC’s role and the benefits they derive from being a member. The limited secretariat also makes it difficult for ICAC to drive its own agenda and undertake its activities independent of its member bodies.

45. If ICAC could be supported on the research and technical capacity front it could be in a position to assist its members in contributing to national efforts to foster integrated financial reporting, and also to facilitate knowledge transfers to assist government efforts adopt and implement International Public Sector Accounting Standards (IPSAS). While public sector accountants in the region are aware of and motivated by the benefits of adoption of IPSAS, they are equally candid about the obstacles (time and associated costs) to successful implementation. The shortage of local experts is another common impediment to IPSAS implementation. In this respect, ICAC could play a significant role if it is able to address its technical capacity constraints. It is clear from a review of regional efforts to comply with IFAC’s SMO 5 (International Public Sector Accounting Standards and Other PSC Guidance) that PAOs find supporting government efforts for IPSAS adoption (to say nothing of implementation) a major challenge. However, the greater impediment to IPSAS adoption is the reluctance of national governments, which themselves face serious capacity constraints and decisions on policy sequencing, as well, arguably, a reluctance to invest the resources to establish a more transparent financial reporting framework.

46. Given capacity constraints at the level of the national professional accountancy organizations there is a clear opening for ICAC to add value if it could strengthen its own

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38 These obstacles reflect global experience and may be by far the largest contributor to the “long delay between the announcement of the adoption of accrual accounting and its full implementation…” as noted in Cangiano, M., Curristine T., and Lazare M., ed. 2013. Public Financial Management and its Emerging Architecture (Washington, DC: International Monetary Fund).

39 Elsewhere in the world, ICAC counterparts are already playing such a role; thus, for example, the Confederation of Asian Pacific Accountants (CAPA), a regional organization of accountancy bodies, has taken many initiatives to support adoption and implementation of IPSAS.

40 Challenges are with IPSAS 17 Property, Plant and Equipment, IPSAS 19 Provisions, Contingent Liabilities and Contingent Assets, IPSAS 23 Revenue from Non-Exchange Transactions (Taxes and Transfers), and IPSAS 31 Intangible Assets. Accounting for Public-Private Partnerships (PPPs), IPSAS 32 Service Concession Arrangements, is likely to be relevant to countries in the region that may be considering PPPs as financing vehicles for much-needed infrastructure upgrades.
capacity. A number of ICAC’s members need to improve their compliance with IFAC SMOs in order to be effective institutes benefiting their members, their governments, and wider stakeholders. They also need to have realistic, practicable, and well-prioritised Institute Action Plans; ideally, these would be coordinated and harmonized with those of other countries in order to be resource effective at the regional level and avoid unnecessary duplication in those subject areas that can be dealt with at the regional level. A strong ICAC secretariat could assist by identifying areas that need strengthening, by fostering the necessary country-level commitment, and by coordinating the development of regional Action Plans for these areas (e.g., quality assurance; education requirements, from prequalification to CPD; etc.).

47. In recent years, ICAC has promoted a regional practice monitoring program that is contracted out to the monitoring unit of ACCA. Under the agreements with participating countries, ACCA undertakes monitoring visits (i.e., firm reviews and engagement reviews). In the context of the first cycle of reviews under this arrangement, where the breaches of rules or non-compliance with standards are considered to be relatively minor or not intended to unethically advance the practitioner’s self-interest, the ACCA monitoring unit provides advice and guidance to firms on how to rectify the deficiencies. While this is an important step forward for the region, the credibility of such assessments may, in the eyes of some stakeholders, be reduced by perceptions of a lack of independence, given the degree and nature of ACCA’s relationship with the PAOs. Moreover, some of the region’s institutes (The Bahamas, Belize and Suriname) do not yet participate in this program, although they are gravitating toward it. The Institute of Chartered Accountants of the Bahamas are considering to start practice monitoring from January 1, 2016.

41 ACCA, through its support for CPD and practice monitoring (among other things), has contributed significantly to the profession’s development within the region. Notwithstanding this contribution, ACCA is itself a professional accountancy body—and one that has a commercial relationship with the Caribbean’s PAOs. It is thus far from unreasonable for some stakeholders to perceive a potential for conflict of interest in its monitoring of these PAOs and to judge that a fully independent oversight body (such as Jamaica’s Public Accountancy Board) would be a preferable option in principle—even recognizing that the ACCA-conducted monitoring reviews are independent of the national PAO being reviewed. Moreover, such a fully independent option is clearly the emerging best practice norm worldwide—though (as could be expected) the earliest adopters tend to be clustered in the more highly developed market economies. The lack of full independence may attenuate the full benefit of the regulatory function.
IV. NEEDED REGIONAL REFORMS

48. Any effort to provide a broader regional perspective to address the inherent constraints of the small states environment while enhancing accounting standards, practices, and products must begin with the Institute of Chartered Accountants of Caribbean. This is not because ICAC is the weakest link in the chain, but because a common country reform approach may not be easy to apply given the variations across the Caribbean in statutory frameworks and resources. This situation calls for the identification of reforms that can best be addressed through a regional approach, tackling common needs and challenges but differentiated at the country level. Broadly, ICAC should strive to help its members bodies contribute to the realization of the four component elements of a viable and effective profession (ensuring adequate requirements, capacity, compliance, and a sound financial and intellectual foundation for sustainability)—and it should do so bearing in mind the full range of stakeholders (including ministries of finance, PAOs, financial regulators, instructors in accounting, parliaments, and the public). And, of course, each PAO should, on its own and in conjunction with the profession’s stakeholders, seek to advance the accounting reform agenda within its national jurisdiction (e.g., by encouraging governments to adopt IPSAS, by advocating for strengthened corporate financial reporting regimes, and by supporting government initiatives to strengthen oversight functions). To be of value to the region, the accountancy reforms and the developments it fosters must have tangible effects in terms of an improved investment climate, the promotion of capital markets, assistance for MSME access to finance, and strengthened financial reporting, regulation, and governance (even if at some remove and with attribution challenges).

49. As the regional professional accountancy body, ICAC must ensure it is technically and financially sustainable if it is to have impact.

   (a) Technical sustainability. To be relevant to members and stakeholders, ICAC must build technical capacity in its secretariat to support, with its own staff, the various activities it is best placed to undertake. These include participation in the full range of standards-setting processes with international standards-setters, participating and supporting standards implementation activities, rendering assistance to institutes aspiring to be ICAC and IFAC members (mentoring), providing activities and assistance (e.g., conferences, regional workshops, virtual seminars, newsletter, website, technical helpdesk, and regional support and advice) to disseminate technical

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42 Indeed, almost all of the following suggestions apply to national PAOs in terms of what they should do to better support their members. ICAC’s prominence in the Chapter is simply a function of its being the regional accountancy body.

43 ICAC should ensure that the “voice” of the Caribbean is heard by standards-setters (contributions from regional PAOs would have more weight if they were consolidated and submitted by ICAC rather than sent individually). This requires seeking representation on the boards of the standards-setters, by providing input to exposure drafts of new standards and comment requests on changes to existing standards and by updating them with feedback on successes achieved and challenges faced in the implementation of specific standards in the Caribbean. Finally, ICAC should intensify its collaboration with international standards-setters so as to increase the number of meetings and workshops they hold in the region.

44 The regional workshops should emphasize “train-the-trainer” programs for enhanced effectiveness, and should preferably be implemented through ICAC’s Joint Seminar Committee. Workshop presenters should be drawn from international standards-setters, members of country institutes, and academia and should cover technically complex and current developments. Once implemented, CPD provision in the region would be significantly improved.
knowledge and professional developments in the Caribbean. These activities will enhance the visibility and relevance of ICAC at the country and regional levels, thus contributing to its sustainability.

(b) Financial sustainability. ICAC must have sufficient sustainable income from its own sources in the long term to effectively cover its technical and professional activities in the region. ICAC’s current thinking on this issue emphasizes presenting a value proposition to major regional business entities (a significant element of its stakeholder community) to secure long-term financial support. Success on this front would clearly be easier to achieve if the ICAC Secretariat had stronger technical (and communications) capacity, which in the near term probably requires external support from the donor community.

50. Governments across the region should strengthen efforts to update national institutional and legal modalities and regulatory capacities, drawing on the knowledge and experience of national PAOs and ICAC. For its part, ICAC should deepen its advocacy for, and support to, members in ensuring that resources and focus are placed on improving financial reporting and auditing practices in their countries. Among other things, ICAC should encourage member bodies to influence the law or regulations in their countries so as to incorporate in law IFRS, ISA, and IPSAS. It should do the same for PIEs, SMEs, and micro-sized entities in terms of both qualitative and quantitative characteristics and adopt differentiated financial reporting.\(^{45}\) (Figure 2 below schematically depicts the resulting regional financial reporting framework.) This last will reduce the cost of compliance by requiring entities to report in terms of their size and public interest situations and will tend to make the cost of financial reporting a normal business cost rather than perceived as a reporting/compliance burden. Additionally, the increased credibility of financial information coming from enhanced compliance will contribute to small entities’ access to finance from lenders. As noted in discussion of the region’s statutory framework (see III B ii), this will encourage more small entities to operate formally, contributing to higher tax collection by governments and thus providing an enhanced resource for the provision of social services and the promotion of shared prosperity.

51. ICAC should continue with its program of encouraging its members to become members of IFAC, and should strengthen its support to its members to ensure that resources and focus are placed on fulfilling the Revised IFAC SMOs. IFAC membership gives PAOs access to technical resources and encourages members of professional bodies to attain and maintain high international standards in terms of education, technical competence, and ethics. As always, conditions and capacity vary widely among PAOs in the region, but with respect to those with critical capacity constraints, it might prove useful for ICAC—once it establishes a well-resourced technical department—to enter into a Memorandum of Understanding (MOU) with IFAC and weaker institutes whereby ICAC further assists these PAOs in monitoring and fostering compliance with IFAC Revised SMOs. Continued failure to make progress toward these standards should render the member body ineligible for both IFAC and ICAC membership. Under the same arrangement, ICAC could also continue to assist those professional bodies in the region that are not yet IFAC members to attain membership.

\(^{45}\) To the extent possible, the definitions should be consistent to assist in the regional agenda.
52. ICAC should seek the commitment of its members to the agenda for closer integration and then engage in horizontal cross-institute collaboration to promote harmonization of the profession regionally, and set timelines for implementation. This effort should include standardization of the entry requirements for the professional accountancy qualification and ensuring that accountants with foreign qualifications satisfy examination requirements in tax and corporate/business laws of the country in which they practice. Long-term objectives should include harmonization of the professional examinations in the region, except the variant papers of tax and corporate/business law, which should remain country specific until such time as the regional legal/economic integration advances. This will foster the mobility of accountants in practice within the region. The regionalization agenda must have convincing benefits, especially to the bigger and more established PAOs, which sometimes prefer to stand alone as opposed to joining efforts with weaker and emerging PAOs.

53. A key long-term objective should be to increase the number and access of qualified accountants in the region. Three such measures would be to (a) promote reciprocal recognition agreements so as to foster the free movement of accountants in practice within the region for those with a CARICOM passport;[46] (b) encourage member institutes to collaborate with country

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[46] Although accountants in business can move throughout the region and work without local PAO membership, this is not the case for those in practice. As IFAC has noted, “Members bodies within and outside the region currently do not have a system of mutual recognition of the qualifying requirements to become a member of individual jurisdictions. The requirements vary from jurisdiction to jurisdiction. Due to small size of some members, country economies of scale could be achieved by members of ICAC if there was mutual recognition of the professional development and learning requirements of each ICAC member. The key success factors here are collaboration with other institutes and equivalent bodies with mutual interests to share resources.” See Action Plan Developed by the
training institutions and governments to ensure there are increased numbers of affordable institutions training students in entry requirements to the accountancy profession; and (c) monitor training institutions to ensure that the quality of training, course materials, and curricula are up to date, so that PAOs benchmark quality with IFAC’s Education Standards. PAOs should also encourage accountancy firms and other accredited training employers to accept students throughout the region in their training programs and provide them appropriate monitored professional training while they prepare for their professional examinations. While this requires commitment from country employers, professional bodies, and governments, it also requires regional monitoring (ideally through ICAC) to ensure implementation.

54. ICAC must assist in ensuring that the training of accountants is of a high quality and meets the IFAC International Education Standards (IES) requirements. ICAC should establish a department dedicated to providing tools and solutions to accountancy education providers (particularly universities) to assist them in providing quality education with appropriate syllabi and curricula. There must be a focus on improving the understanding and practical application of international financial reporting standards and international standards on auditing by students, and on raising the quality of CPD among members. ICAC should introduce “training-of-trainer” programs, especially in complex and rapidly evolving areas of accounting and auditing. Improving the link between university education and professional qualification entry requirements and other employer needs in terms of quality is an area that needs special attention.

55. ICAC should facilitate closer links among national PAOs and encourage these bodies to learn from other countries’ experiences (“peer learning”) in such matters as audit quality assurance and CPD, given their common needs and objectives while at different stages of development. Such closer links foster efficient reform processes in an environment where some institutes have quite limited resources and capacity. ICAC should also introduce the concept of Communities of Practice, which bring together specialists in various financial reporting areas from all the participating countries to share experiences.

56. ICAC should further encourage PAOs to support SMPs to better serve the needs of SMEs (which are increasingly linked to global markets), for example, providing services in any of the International Auditing and Assurance Standards Board (IAASB) Pronouncements. This can be accomplished through development of audit manuals, industry-specific technical audit guides, appropriate CPD, technical help services, putting together a technically up-to-date website relevant to regional issues, regional training of IFRS and IFRS for SMEs, and so forth.

57. It is important to separate the functions of an independent accountancy profession regulator in the region from those of a regional professional accountancy body. Given challenges such as the small size of the economy and the profession and the sustainability of institutions, a choice has to be made by each country whether to have an in-country independent regulator of the profession, or to establish a regional regulator of the accountancy profession with

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Institute of Chartered Accountants of Jamaica, April 2013, page 5, at http://www.ifac.org/about-ifac/membership/compliance-program/compliance-responses. Moreover, such a proposal is fully in keeping with Article 45 of the Revised Treaty of Chaguaramas (the foundational document establishing CARICOM), which states that the number one goal of the community is the “... free movement of nationals within the community.” See “Regionalism Among Small States—Challenges and Prospects: The Case of the Caribbean Community (CARICOM),” Wendy Grenade and Kai-Ann Skeete, Small States Digest, Issue 1, 2015, page 20.
cooperation of the governments of all the participating countries. It may also be a viable option for countries to rely on regulators from regional neighbors that may have established effective regulatory entities. In any event, independent regulation of the accountancy profession in the region must comply with international practice; thus, if a regional regulator is formed it should be encouraged to join IFIAR in order to benefit from the existing pool of knowledge of the global audit market, the environment, and independent audit regulatory activity focusing on audit practice reviews.
V. FRAMING REFORM ACTIONS WITHIN A REGIONAL ACCOUNTANCY STRATEGY

58. By providing inputs for strengthening accounting and auditing practices, the strategy outlined in the regional and national Action Plans (at the end of the main text) aims to contribute to the region’s economic integration agenda. As was noted earlier, the stated objective of the region’s highest-level politico-economic entity (CARICOM) is “coordinated economic development and convergence … with enhanced functional co-operation …” and this objective dovetails with the more drilled-down founding objective of the region’s umbrella organization of accountancy bodies (ICAC): “… promote and harmonize regional accounting and auditing standards as well as company laws and taxation legislation among member territories.” The strategy outlined below aims to foster these objectives in part by providing a basis for inter-country dialogue for improving corporate financial reporting and transparency, so that Caribbean countries can collaborate in developing a common model of regulation for corporate sector accounting and auditing and for monitoring of the quality of accounting and auditing on a regional basis, with the support of ICAC and affiliate bodies. (See Box 4 for an example of the nexus between accounting and auditing and regional integration.) The strategy also aims to support the governance agenda of ICAC and the country professional accountancy bodies by including recommendations aimed at (a) enhancing the institutional capacity of ICAC and the national professional accountancy bodies; (b) improving the quality of accountancy education and training, including continuing professional development; (c) strengthening the regulatory framework governing accounting and audit practices; and (d) improving the profession’s ethical standards.

<table>
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<th>Box 4. Financial Reporting for Increased Investment: The Example of MILA</th>
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<td>A robust accounting and auditing profession can provide a common platform for foreign investment across countries within a subregion. Consider, for example, the Mercado Integrado Latinoamericano (more commonly known as MILA), the integration of the stock markets of Chile, Colombia, and Peru. MILA built on, among other inputs, a common information platform based on IFRS and the ROSCs for these countries from the first decade of this century, both of which enhanced credible and compatible financial reporting as a basis for investment decisions. Today, this new market is the second largest in Latin America and the Caribbean in terms of capitalization, and is the largest market by number of listed companies. Although Mexico’s stock exchange, the Bolsa Mexicana de Valores, has not yet been integrated into MILA, it has signed an agreement to begin viability studies that will allow its complete incorporation into MILA; should this come to fruition it would create Latin America’s largest stock exchange, surpassing Brazil’s BM&amp;F Bovespa, and would also boost the new bourse’s market capitalization beyond the $1 trillion mark. For more information, see <a href="http://www.nasdaq.com/article/the-andean-exchange-a-developing-market-opportunity-in-our-backyard-cm331968#ixzz2vWAlrYrG">http://www.nasdaq.com/article/the-andean-exchange-a-developing-market-opportunity-in-our-backyard-cm331968#ixzz2vWAlrYrG</a></td>
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59. To develop a regional accountancy strategy it will be necessary to identify both the critical constraints on ICAC/PAO performance, and the key stakeholders and their basis for shared or complementary activities. With respect to the former, as was earlier noted: staff and resource constraints unleavened by either an up-to-date resource mobilization strategy or a strategy to protect its potential market share from other providers of training, monitoring, or accountancy expertise. The successful development of ICAC’s strategy and its implementation should involve all its stakeholders, including CARICOM, national PAOs, national regulatory
agencies (and any regional bodies that unite a given activity/agency, such as CAROSAI), parliamentary oversight committees, and the public. And, once again, most of the recommendations below apply with equal force to most of the PAOs in the region.

60. **Strategic Premise and Goal.** At the present time, the momentum for Caribbean harmonization arguably has the greatest traction and potential impact at the professional level, where gains may foster subsequent prospects at the higher realms of the political and financial. The virtue of focusing on the professional level is that every element within the accountancy value chain wants, and is rewarded by, raising its profile with/within the profession and the public, and hence the process is self-reinforcing. Within this approach, the goal of the strategy would be to create relatively low cost ‘win-win’ situations, with internally cascading impacts that build on each other (see, for example, the CARICOM discussion below), so that at some point the process gathers inertial force, until it takes an actual contrary intervention to break the momentum.

61. **Resource Acquisition.** The most advantageous aspect to a strategy that focuses on fostering integration at the professional level so as to promote the objective of “coordinated economic development and convergence” is that it provides a basis for resource acquisition for each component from development partners and private and public sector stakeholders and from each other as each component (and each of its constituent elements) receives greater value-added from its relationship (for example, members of the profession from their national PAO, the national PAOs from ICAC, etc.). It also addresses the dominant ‘chicken-egg’ conundrum/explanation for inaction: lack of financial and human resources. If there is a sound strategy, funds will be forthcoming in a context of a given pool of funds, the distribution of which will be to winners/strivers (whether ICAC, national PAOs, national supreme audit institutions or regulatory bodies, CAROSAI, etc.) on the sound principle of reinforcing success and closing down efforts that lead to culs de sac.

62. **CARICOM and CAROSAI.** CAROSAI would be institutionally invigorated by contributing to a partnership program to foster the accountancy profession in order, among other things, to strengthen the financial reporting and audit functions regionally, as would CARICOM, within the context of promoting a stronger investment climate for private sector-led growth and employment. An active joint accountancy initiative would in turn tend to strengthen the profession (at the regional and national levels), the various national parliamentary accounts committees (PACs) with which the partnership program would interact, and (at some remove) the region’s economic prospects, as enhanced financial reporting and auditing practices fostered investment. CAROSAI, CARICOM, and ICAC would all benefit if they were partners in such an effort. A stronger ICAC would be better positioned to assist its constituent members (for

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47 As a recent Commonwealth Secretariat study of CARICOM noted, “[O]ne of the major shortcomings of CARICOM is the disconnect between the formal integration process and the people of the Caribbean. … There are insufficient avenues for Caribbean citizens, civil society groups and private sector organisations to participate meaningfully in the integration process. … [F]unctional cooperation is the catalyst of Caribbean integration. It is both a means of deepening regional integration and a tangible outcome of the regional integration process … [however] despite the collective gains in the social realm, functional cooperation has been awarded little prominence given the (over) emphasis on economic integration as the basis for regional development.” See “Regionalism Among Small States—Challenges and Prospects: The Case of the Caribbean Community (CARICOM),” Wendy Grenade and Kai-Ann Skeete, *Small States Digest*, Issue 1, 2015, pages 18 and 25.

48 Significantly, the February 2014 “Strengthening Parliamentary Budget Oversight in the Caribbean” workshop sponsored by ParlAmericas—which was attended by parliamentarians (including several PAC Chairs) and heads of
example, with practice monitoring of audit, and training/updating on IFRS and ISA) and support the efforts of its regulatory/oversight partners (for example, SAIs, national audit offices, etc.). In the first instance at the national level, working with ICAC, it might be useful to identify the most advanced accountancy elements—that is, those entities that might usefully offer peer-to-peer South-South training, drawing on existing funding sources for the training interventions (e.g., the World Bank-executed multi-donor trust fund South-South Experience Exchange Facility, the World Bank FIRST Initiative, the Caribbean Growth Forum, and the Compete Caribbean Program).

63. **ICAC and CARICOM.** Working with CARICOM (particularly with respect to the latter’s outreach to national governments and PACs), it may be possible for ICAC to encourage governments to share the costs of associating public sector accountants working in line ministries and SOEs with PAO membership—on the grounds that this falls under the rubric of “public goods.” There are, of course, small, quick, no-cost, low effort initiatives that ICAC and CARICOM could jointly undertake to raise their profile, enhance their impact, strengthen the profession, and promote economic growth and financial stability: for example, they could emulate the many South Asian countries that annually give an award for “Best Published Accounts.”

64. **ICAC.** At present, ICAC is caught in a ‘chicken-egg’ dilemma: until it provides members with greater value-added services it is difficult to expand its base or raise its membership fees; in the absence of resources it is difficult to provide value-added services. As a first step, ICAC must develop a resource mobilization strategy that would enable it to function sustainably and effectively as a service provider with regular outputs beyond preparing for and delivering an annual meeting and providing ongoing CPD initiatives. Such a strategy presumes that a better resourced ICAC can demonstrate its added value to its constituent elements and to potential partners. Two avenues that might be explored to this last effect are to strengthen ICAC’s technical capacity to (a) enable it to assume a regional ‘train-the-trainers’ role with respect to IFRS, IFRS for SMEs, ISA, etc., and (b) enable it to assume a regional audit practice monitoring role to aid PAOs. In both cases, the first stage of its efforts may involve identifying external experts (and donor support for their hire) and then overseeing their activities.

65. **ICAC and Donor Support.** It is also difficult for ICAC to access donor support on anything other than an ad hoc basis, leaving the organization dependent on the volunteer contributions of time and expertise from ICAC Board members. While admirable, this is not a sound basis for organizational growth. The key to escaping the dilemma is for ICAC to develop a highly selective and targeted strategy to provide value-added services to its members and—through them—to private and public sector stakeholders. Between service provision and its representational function (e.g., A4, A5 in its Three-Year Strategic Focus), ICAC should prioritize the former; between outward (A, C in its Three-Year Strategic Focus) and inward

Supreme Audit Institutions in the region—recommended liaising with CARICOM to coordinate efforts to improve PACs in the region, and coordinating with CAROSAI to address challenges to audit offices in the region. In both cases, it would seem that there would be value in including the Commonwealth Parliamentary Association Branches of the Caribbean, the Americas, and the Atlantic Region (CPA CAA) Secretariat in such efforts. The current CPA CAA Regional Secretary/Treasurer is Mrs. Heather Cooke, who has served as the Clerk of Jamaica’s House of Parliament since 2006.

Given that this function is currently undertaken by ACCA it might be prudent to consider this as a future prospect, after demonstrating to national PAOs a track record in the ‘train-the-trainers’ role that would warrant shifting the funds they now pay to ACCA to ICAC.
orientations (B in its Three-Year Strategic Focus), ICAC should prioritize the former. In short, ICAC must accept, and thrive within, the private sector demand-driven environment of innovate or perish.

66. **PAOs.** Despite the varying capacities of the national PAOs in the Caribbean, there are very few that do not face significant technical capacity gaps, most notably with respect to their ability to provide high-quality training in evolving international standards, particularly to their SMP members (which in turn makes it harder to attract such members). Working with ICAC, under some resource/burden-sharing formula, should make it possible to recruit a technical resource person(s) to help each PAO better ensure compliance with IFAC Statement of Membership Obligations. Working with ICAC and CARICOM (particularly with respect to the latter’s outreach to national governments and PACs), it may be possible to encourage governments to share the costs of associating public sector accountants working in line ministries and SOEs with PAO membership—on the grounds that this falls under the rubric of “public goods.” By making available to such accountants the training provided by the PAO, prominently including with respect to IFAC’s Continuing Professional Development requirements, government accounting practices and products would be strengthened, PACs and regulatory agencies would have higher quality budget analyses/financial statements/audits to review, and PAOs would expand their membership/resource base. In addition, and without the need for much in the way of expanded resources, many PAOs could begin to (or strengthen) their efforts to establish working relationships with universities and tertiary institutions so as to upgrade the curriculum in accountancy education graduate programs. This in itself would be a first step toward implementing an outreach strategy to raise the profile of the profession and attract greater numbers of future members to the profession, helping mitigate the shortage of qualified accountants.

67. **Regulatory Agencies.** A stronger profession embodied in better resourced PAOs with wider membership could assist Caribbean governments to strengthen the internal audit functions in central government departments and public enterprises by raising awareness in the government and the wider public, and also by supporting capacity development in risk-based internal audit functions. Stronger PAOs are also a critical component of efforts to implement IPSAS, as well as support government initiatives to enhance the corporate financial reporting regime. The Indicative Action Plan at the end of this document suggests several actions that could be undertaken to strengthen the legal/regulatory framework and practices of governments. It will be up to the government concerned to assess which of these best meet the urgency/ease of implementation trade-off.

68. **Unification/Harmonization.** Each of these potential initiatives would, over time, tend to drive the regional unification/harmonization agenda, without any specific effort to do so. To take one example: the more nearly legal frameworks and qualification requirements converge the easier it will be to ensure (at the practical rather than formal level) that qualified Caribbean accountants can be in practice anywhere in the region. And as this convergence occurs, company laws and reporting standards, for example, will tend to have a natural regional grain (such that divergences from rationalization will increasingly have to be affirmatively justified rather than merely excused as historic remnants of inherited structures). Of course, some countries will continue to experience inherent challenges (for example, Suriname because of the language barrier and different colonial heritage).
Avoid Mission Creep. Developing a region-wide plan for the accountancy profession and products must start with the principle of selectivity and sequencing. In environments that are especially in resource-constrained, plans with a multitude of elements are not ‘aspirational’—they are simply unrealistic. Moreover, their consequences violate the first principle of medicine (which should also be the first principle of policy): “first, do no harm,” as their probable failure to deliver impactful results may lead to cynicism and discourage further reform efforts. In the Caribbean context, both for the profession and all of its stakeholders, it is unlikely that more than two or three initiatives could begin to be successfully implemented within the next two or three years. Clearly, each of the components is best placed to determine what the specific initiatives should be; however, to jump-start a dialogue, the following suggestions are offered.

Indicative Action Plans. The Indicative Action Plans immediately below identify the most pressing needs reflected through the prism of existing capacity challenges facing the Caribbean governments and the profession—leaving prioritization to the respective actors/levels of the profession, who are best placed to make that determination. With respect to the national plan ‘menu,’ clearly not every item will necessarily be applicable to every country; equally clearly PAOs (and ICAC) cannot be the determinative agency in items A-C, although their advocacy for these items can accelerate their progress. In addition, for recommendations that involve general actions, specific steps will have to be determined as is necessary in order to achieve the intended outcomes.

Menu of Proposed Reform Actions at the National Level

<table>
<thead>
<tr>
<th>A. Prepare a national strategy for the development of a sound and well-functioning Corporate Financial Reporting Regime, including the cost of its implementation.</th>
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<tbody>
<tr>
<td>B. Strengthen the capacity of regulatory bodies and oversight entities to ensure compliance with financial reporting standards and/or foster better accounting and budgetary capacity for the use of public funds.</td>
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<tr>
<td>1. <strong>Capacity of the FSC, SEC, and the Stock Exchange.</strong> Rationalize and strengthen the focus of the Financial Services Commission, Securities and Exchange Commission (SEC), and Stock Exchange for effective review and monitoring of financial reports and the financial market, and provision of feedback to listed companies and the public. In doing so, seek to avoid duplication of efforts between the various regulators.</td>
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<td>2. <strong>Financial Reporting Oversight Board.</strong> Establish a Financial Reporting Oversight Board drawing members from the Central Bank, Securities and Exchange Commission, Ministry of Finance, Chamber of Commerce, and professional accountancy organization (PAO). The Ministry of Finance would need to provide adequate resources to enable the Board to be effective and implement its mandate.</td>
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<tr>
<td>3. <strong>Monitoring capacity of the Central Banks.</strong> Further strengthen the capacity of the Central Bank for effective review and monitoring of the financial reports and provision of feedback to financial institutions. The Central Bank should identify qualified accountants from its current staff and develop the key technical skills for conducting effective and independent review of the financial statements of financial institutions.</td>
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<tr>
<td>4. <strong>Capacity of the Ministry of Finance.</strong> Strengthen the capacity of the SOE unit in the Ministry of Finance to monitor and enforce financial reporting requirements in SOEs. In addition, build Internal Audit capacity.</td>
</tr>
<tr>
<td>C. Amend the law and regulations to further improve financial reporting requirements and the quality of accounting and auditing products.</td>
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<tr>
<td>1. <strong>Establish in law PIEs, SMEs, and micro-entities,</strong> along with related accounting and auditing thresholds. Private limited companies should be required to appoint auditors. Develop a financial reporting framework for micro-entities. Auditors of any entity should hold PAO membership.</td>
</tr>
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**Indicative Regional Action Plan for ICAC**

1. **Technical and monitoring capacity.** Strengthen the technical capacity of ICAC, particularly its ability to support member PAOs with respect to evolving international standards and practice monitoring, and its ability to represent the region professionally. Establish a Technical Directorate in ICAC with adequate qualified staff who could provide a range of research and technical services to the public sector, financial sector, and also member bodies. The long-term goal would be an ICAC that could serve as a regional research/resource think-tank—as well as a monitoring entity for the profession.

2. **Funding.** Develop a resource mobilization strategy to support an active ICAC that adds value to its members and to the region.

3. **Support to PAOs and national governments.** Going forward, ICAC should be enabled to provide support to PAOs and governments through knowledge transfer (e.g., transmitting knowledge of IPSAS to each, ultimately leading to its adoption and implementation).

4. **Reciprocal recognition.** ICAC should work with PAOs to promote reciprocal recognition agreements so as to foster the free movement of accountants in practice within the region for those with a CARICOM passport.

5. **Physical capacity.** Develop ICAC’s physical facilities for providing library, classrooms, conference rooms, and research facilities. Upgrade its IT capacity (and in national institutes, for video-conferencing) and Web presence. Recruit an intern, perhaps through a for-credit agreement with the University of Technology, Jamaica.
6. **CARICOM and CAROSAI.** Establish a partnership program with CARICOM and work jointly with national PAOs and Parliamentary Public Accounts Committees (PACs) to strengthen accounting, auditing, and budgeting practices throughout the region.
Annex 1. Consultations

Among those consulted were the following.

**ICAC in Kingston, Jamaica (June 5, 2015)**
Frank Myers, President
Jasmine Davis, Vice President
Reynaldo Magana, Council Member
Khalil Alli, Council Member
Cyril Soerie, SUVA representative
Stacy-Ann Golding, ICATT representative

**ACCA Written Responses (February 2015)**
Prajesh Damani, ACCA, Global Assurance Manager
Brenda Lee Tang, Head, ACCA Caribbean
Khalil Alli, ICAC Council

**Barbados (June 20-22, 2014)**

**ICAB**
Reginald Farley, Executive Director
Andrew F. Brathwaite, Vice President
Rueben Blenman, Treasurer
David Simpson

**Financial Services Commission**
Randy Graham, CEO
Warrick Ward, Deputy CEO

**Barbados Stock Exchange**
J. Ezra Marshall, Deputy General Manager—Operations
Donna Hope, Manager—Registry Services
Marlon Yarde, CEO and General Manager

**Ministry of International Business**

**Corporate Affairs and Intellectual Property Office**
Deborah E.R. Beckles, Deputy Registrar
Kevin Strong, Deputy Registrar of Corporate Affairs
Kevin A. Hunte, Deputy Registrar, Copyright Unit
Ministry of Finance, Accounting Unit
Lorna M. Leacock, Management Chief Accountant
Octavia Forde, Chief Accountant

Deloitte & Touche
J.E. (Betty) Brathwaite, Managing Partner

The Bahamas (June 18-19, 2014)
BICA Council
Darnell Osborne, President
Jasmine Davis, First Vice President
Cecile Greene, Treasurer
Reece Chipman, Secretary
Stacy Jones
Basil Ingraham
Terrance Bastion, Auditor General

Securities Commission
Jerry A. Butler, Deputy Chairman
Hillary Deveaux, Executive Director
Christian Adderly, Sr. Officer, Market Surveillance Department

Clearinghouse Bankers Association
Ian Jennings, President Commonwealth Bank
Margaret Butler, CitiBank Country Officer
Marie Rodland-Allen, CBA President and Managing Director, Bahamas and TCI, First Caribbean International Bank

ICAC Council and stakeholders (Suriname, May 31-June 7, 2014)
Frank Myers, President
Jasmine Davis, Vice President
Vintorio Bernard, Treasurer
Khalil Alli, Secretary
Brenda Lee Tang, Head, ACCA Caribbean
Esther Le Gendre, General Manager, ICATT
Mario Abela, IFAC

Institute of Chartered Accountant of Guyana (ICAG)
Ronald Alli, President, ICAG met on several occasions during missions in Guyana
Annex 2. Trinidad & Tobago

1. This Annex to the Caribbean Accounting and Auditing review provides an assessment of accounting, financial reporting, and auditing standards and practices in the public and private sectors in Trinidad & Tobago. The information and conclusions contained within are drawn from the ROSC A&A that the World Bank delivered to the Government, and subsequent Bank missions to Trinidad & Tobago, IMF Article IV reports, communications with the national professional accountancy, central bank, regulatory agencies, and so forth, and from the official websites of such entities. The main objectives of this report are to identify challenges facing the accountancy profession and develop policy recommendations to further enhance the quality of financial reporting in the country.

Country Context

2. Trinidad & Tobago has a relatively small, open economy with a high per capita income and abundant natural resources. It is one of the most prosperous countries in the Caribbean, with an average per capita income of approximately $22,000 thanks to its oil and gas sector (including petrochemicals), which accounts for about 40 percent of GDP, 85 percent of exports, and 55 percent of central government revenues. It has an open investment climate. Robust foreign investment since 1990 has made Trinidad & Tobago the Western Hemisphere’s largest supplier of liquefied natural gas, one of the region’s largest and most industrialized economies, and an important financial center. The labor force is highly unionized across most sectors. The country has eliminated almost all investment barriers to further improve the ease of doing business. It has the potential to emerge as a regional financial center, with the recent failure in a major financial services group presenting learning opportunities for corrective action.

3. Trinidad & Tobago has more than 140,000 private sector enterprises. Most of the enterprises are small and medium-size enterprises (SMEs) and micro-entities. The Government is aware that SMEs are a major driver of economic growth. Consequently, there are plans to establish an SME Stock Market to reduce this sector’s over-reliance on bank financing. The Government is also planning that listed SMEs pay a reduced corporation tax at a rate of 10 percent. Total market capitalization of the Trinidad & Tobago Stock Exchange (TTSE) is about TTD$94 billion (approximately US$16 billion).

4. The banking and non-banking financial institutions sector is relatively well developed and has become a catalyst for economic growth.

   a. There are eight commercial banks (of which one is wholly owned by the Government) with total banking assets of $10.5 billion at end-2012. Most of the banks have operations across the Caribbean region. There is also a significant presence of banks incorporated in other Caribbean islands: of the five listed banks, three are incorporated in other Caribbean islands.

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1 Report on the Observance of Standards and Codes Accounting and Auditing: Trinidad & Tobago, Report No. ACS3213, March 2013. Given the recent publication date, too little time has passed to assess the status of implementation completion of the report’s recommendations.

2 Unless otherwise specified the currency cited in this review is the U.S. dollar.
b. There are 18 non-banking financial institutions licensed to conduct business of a financial nature; these include leasing companies, asset management companies, investment banks, and finance and merchant banks.

c. The financial sector accounts for 9 percent of total employment, about 12 percent of GDP, and about 70 percent of stock market capitalization.

d. The insurance sector is dominated by a few large companies. At the end of 2010, there were 6 Life insurance companies and 25 Non-Life insurance companies. Two of the insurance companies are under the control of the Central Bank and Government as a result of bailouts during the global economic crisis. The insurance sector is generally locally and privately owned.

5. The state-owned enterprises (SOEs) sector is large; it provides significant employment opportunities and is a significant service provider in the formal economy. The Government owns about 75 public enterprises, with total investments of about $8 billion.

Statutory Framework

6. The accounting, auditing, and financial reporting requirements are governed by various corporate laws and the Institute of Chartered Accountants of Trinidad and Tobago (ICATT). The Acts do not contain detailed accounting, auditing, and financial reporting requirements, but rather refer to standards adopted by ICATT. ICATT has adopted IFRS (including IFRS for SMEs) and ISA. The Acts governing the key requirements are:

- the **Companies Act 1995**, and the **Companies Regulations 1997**
- the **Insurance Act** (Chapter 84:01)
- the **Co-Operative Societies Act** (Chapter 81:03)
- the **Financial Institutions Act, 2008**
- the **Financial Intelligence Unit Act, 2009**
- the **Securities Industry Act** (Chapter 83:02).

7. The Companies Act 1995 requires that all limited companies present audited financial statements to their shareholders. According to the Act, all public companies shall, and any other company may, have an Audit Committee.

8. The rules of the Trinidad & Tobago Stock Exchange (TTSE) and the Securities and Exchange Commission (SEC) require listed companies to produce, publish, and file quarterly and annual financial statements.

9. The Central Bank of Trinidad & Tobago is the regulatory authority for the banking industry and operates through the Financial Institutions Act, which requires the annual financial statements of banks to comply with IFRS and be audited. There is subsidiary legislation for specific financial institutions.

10. The Financial Institutions Act gives the external auditor of a bank further reporting responsibilities. The external auditor has to report annually directly to the Inspector of Financial Institutions on the adequacy of controls, systems, and so forth. The Act protects the auditor from liability for providing such additional information. The Act also requires all entities licensed under it to appoint an Audit Committee.
11. The main legislation for the insurance industry is the Insurance Act, 1980; the Central Bank provides regulatory oversight. Non-banking financial institutions (NBFIs) are legislated under the Financial Institutions Act, 2008. Undertakings for Collective Investments (UCIs) are regulated by the Central Bank and fall under the Insurance Act.

12. All the SOEs are registered under the Companies Act 1995 and are treated like any other limited company for accounting and financial reporting and audit purposes. This is a significant strength in the statutory financial reporting requirements for SOEs in Trinidad & Tobago. SOEs are therefore required to comply with IFRS by virtue of reporting under the Companies Act. However, financial statements of a number of SOEs are not up to date and some audits are outstanding.

13. There is no definition in law of a public interest entity (PIE) or SME to support the IFRS and IFRS for SMEs reporting frameworks.

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### Regulatory Environment

14. The Registrar of Companies checks for compliance with the *Companies Act* filing requirements by registered companies. The Registrar relies on the company’s external auditors (ICATT members) to check compliance with accounting, auditing, and financial reporting requirements.

15. Currently both TTSE and SEC monitoring is limited to ensuring that listed companies file within the prescribed time and that the financial statements are complete.

- SEC imposes monetary fines or can suspend companies from trading as sanctions on listed companies for failure to file or for tardy filing of financial statements.
- TTSE and SEC require listed companies to prepare financial statements conforming to IFRS, and for these statements to be audited in accordance with ISA. They do not check compliance with these accounting, auditing, and financial reporting requirements applicable to general purpose financial statements of listed companies.
On these issues, they rely on the work of external auditors or they refer them to ICATT, which itself does not have technical capacity to check for that compliance.

16. The Central Bank is the regulatory authority for banks and similar financial institutions. This oversight is limited to prudential regulatory supervision. The Central Bank plays no significant role in enforcement of financial reporting requirements. It also does not check compliance with mandatory accounting, auditing, and financial reporting requirements applicable to general purpose financial statements. For this they rely on external auditors.

17. In 2004, regulation of the insurance sector was moved from the Ministry of Finance to the Central Bank. Market perception is that oversight has improved since then.

18. NBFIs are regulated by the Central Bank. The regulators do not monitor general purpose financial statements for compliance with accounting and auditing standards. However general monitoring of records and assessment of internal controls takes place during on-site visits. Inspectors of financial institutions collaborate with the auditors.

19. There is a separate monitoring unit for SOEs within the Ministry of Finance, headed by a Permanent Secretary, and guided by a monitoring manual that outlines periodical financial, physical, and performance monitoring requirements. SOEs are required to submit audited annual financial statements to the MoF. A World Bank review in 2014 found that about 30 percent of the SOE audits had not been submitted, with some of the outstanding audits dating back as much as five years.

20. Capacity to enable compliance, enforcement, and sanction are viewed as generally limited in the country. Some audit practitioners acknowledge that a qualified audit opinion in the private sector would almost certainly lead to a change of auditors.

The Accountancy Profession

21. ICATT and the UK-based Association of Chartered Certified Accountants (ACCA) are the main active professional accountancy bodies in Trinidad & Tobago. At end-2010, ICATT had 986 members (exclusive of students and associates), of whom 178 were in public practice as auditors (these are the only professionals mandated, per the Companies Act, to be members), 707 were non-public accountants, 45 were resident overseas, and 58 were retired. In addition to ICATT members, there about 1,000 qualified professional accountants, mostly ACCA-qualified, who are not ICATT members.

22. ICATT is responsible for regulating the accountancy profession in Trinidad & Tobago. ICATT was established by an Act of Parliament (Act 33 of 1970) as a self-regulatory body for the accountancy profession. The Act also gives ICATT the authority to approve auditing and

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3 Legal requirements for monitoring accounting and auditing compliance are in the Companies Act, Financial Institutions Act, and ICATT rules. There are no significant differences in the accounting requirements for regulatory reporting and for general purpose financial reporting.

4 The following professional bodies also have members in the country but are not institutionally active: the Institute of Chartered Accountants in England and Wales (ICAEW), the Institute of Chartered Accountants in Scotland (ICAS), the Institute of Chartered Accountants in Ireland (ICAI), Chartered Professional Accountants of Canada, and the American Institute of Certified Public Accountants (AICPA).
accounting standards in Trinidad & Tobago. ICATT is the sole organization in Trinidad & Tobago with the right to award the Chartered Accountant (CA) designation. ICATT is a member of the Institute of Chartered Accountants of the Caribbean (ICAC) and of the International Federation of Accountants (IFAC). ICATT, as the approved standard setter, has adopted IFRS (1999), IFRS for SMEs (2010), and ISA (2001), as its approved accounting and auditing framework for Trinidad & Tobago.

23. ICATT is the sole regulatory authority for accountants and auditors in Trinidad & Tobago.

- Although it statutorily controls audit practice of its members, and sets standards for the performance of the accountancy profession, it effectively has no control over accountants and auditors who are not ICATT members. Moreover, because ICAAT membership may be obtained through various qualification routes, the skills level of its members is uneven.
- Professional accountants in business (outside professional audit practice) are not mandated to be ICATT members.
- ICATT requires that its members comply with the Code of Ethics of the International Ethics Standards Board for Accountants (IESBA), Continuing Professional Development (CPD) requirements, and other professional regulations.

24. Membership of ICATT is acquired through a combination of examinations and two years’ work experience.

- The primary route for ICATT membership is through a joint ICATT and ACCA scheme that gives successful candidates the right to membership of both organizations. There is a joint student arrangement between ACCA and ICATT.
- Other routes to membership include a joint Association of Accounting Technicians (AAT, UK)/ICATT scheme and the acquisition of an approved university degree.
- Membership of ICATT can also be obtained by members of other approved professional bodies, in particular members of some accountancy bodies in Canada, the United Kingdom, and the USA.

Since ICATT membership can be attained though various qualification routes, the education and practical training of the members can be uneven.\(^5\)

25. Thus, although ICATT sets standards for the performance of the accountancy profession in Trinidad & Tobago and regulates and monitors its members, it effectively has no control over

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\(^5\) However, some of the alternative international routes have more stringent requirements than ICATT (e.g., requiring three years of work experience and completion of online ethics module). One unfortunate common feature is that none of the professional accountancy bodies that provide training leading to ICATT membership offers full professional accreditation and examination in Trinidad & Tobago taxation, corporate, and business laws. Although some international accountancy bodies have in the past partnered with ICATT to offer brief tax training sessions, this does not equate to developing the professional knowledge to function adequately as an expert on the full range of local tax laws. ICATT members are therefore licensed to practice without being tested and passing these important local variant papers—which as yet do not exist in the Caribbean.
the many Trinidad & Tobago qualified professional accountants who are not ICATT members, who are subject to oversight and/or regulation by their respective professional bodies. This results in differential regulation and the potential for regulatory arbitrage.

26. Some accounting and audit reports are prepared by persons who are not practicing members of ICATT. These are accepted by banks, the Registrar of Companies, the tax authorities, and other users of financial statements. The law does not always require audits to be conducted in accordance with ISA (except in those cases where audits are required to be conducted by practicing members of ICATT, which requires its members to use ISA).

27. ICATT is a full member of IFAC. Its status with regards to IFAC Statement of Membership Obligations (SMOs) still needs improvement, as noted below.

- **SMO 1 - “Quality Assurance.”** As an IFAC member body, ICATT has an obligation to encourage and support its members, by disseminating quality control guidelines requiring firms to implement a system of quality control in accordance with International Standards on Quality Control (ISQC) 1: “Quality Controls for Firms that Perform Audits and Reviews of Financial Statements and Other Assurance and Related Services Engagements” and ISA 220: “Quality Control for an Audit of Financial Statements.” This task is currently not being implemented because of capacity constraints. The tripartite (ICATT, ICAC, ACCA) audit quality reviews need further improvement to strengthen their independence.

- **SMO 2 - “International Education Standards for Professional Accountants and Other EDCOM Guidance.”** ICATT does not conduct its own examinations and is not collaborating with tertiary institutions to ensure that accountancy education at these institutions produces graduates that meet the minimum standards of International Education Standards (IES) 2: “Entry Requirements to a Program of Professional

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6 These include members of ACCA, the American Institute of Chartered Public Accountants (AICPA), the Chartered Professional Accountant of Canada (CPA), Institute of Chartered Accountants of England and Wales (ICAEW), Institute of Chartered Accountants of Scotland (ICAS), and Institute of Chartered Accountants of Ireland (CAI).

7 To date, according to ICAC respondents, there is little evidence that this potential has been manifest in practice.

8 The plurality of Caribbean accountants that maintain an affiliation with an international accountancy body do so with ACCA (though only a minority of these are Chartered Accountants). ACCA, through its support for CPD and practice monitoring (among other things), has contributed significantly to the profession’s development within the region. Notwithstanding this contribution, ACCA is itself a professional accountancy body—and one that has a commercial relationship with the Caribbean’s national PAOs. It is thus far from unreasonable for some stakeholders to perceive a potential for conflict of interest in its monitoring of these PAOs and to judge that a fully independent oversight body (such as Jamaica’s Public Accountancy Board) would be a preferable option in principle—even recognizing that the ACCA-conducted monitoring reviews are independent of the national PAO being reviewed. (However, in the first instance ACCA cannot sanction any failings—which responsibility falls to the PAO, further limiting independence—although ACCA could introduce sanctions in the absence of PAO action if the party concerned was an ACCA member.) Moreover, such a fully independent option is clearly the emerging best practice norm worldwide—though (as could be expected) the earliest adopters tend to be clustered in the more highly developed market economies. This lack of full independence may attenuate the full benefit of the regulatory function. From the perspective of national PAOs, however, this potential issue may well be outweighed by the more practical concern with resources: with practice monitoring supervision missions averaging $22,000 there is a substantial burden imposed on national professional accountancy organizations. Thus, for example, in 2012 and 2013 the second-largest expenditure category for the Institute of Chartered Accountants of Guyana was practice monitoring. (See ICAG Annual Report 2013, report of independent auditor, page 24.)
Accounting Education.” Monitored practical training requirements as part of training for membership of ICATT are not being reviewed by ICATT to ensure they are aligned with IES issued by IFAC or with its own requirements. ICATT should ensure that Continuing Professional Development (CPD) topics cover new standards and changes to existing standards and that in all cases they meet the minimum requirements of IES 7: “Continuing Professional Development: A Program of Lifelong Learning and Continuing Development of Professional Competence.” In the medium to long term, ICATT should consider establishing its own high-quality education and examination system that has international recognition. ICATT, with its current limited financial, physical and technical capacity and the absence of a local or regional qualification, is not in a position to comply with the requirements of SMO2. However, professional examinations have been outsourced to international accountancy bodies such as ACCA.

- SMO 3 - “International Standards, Related Practice Statements and Other Papers Issued by the IAASB.” Although International Standards on Auditing are adopted, ICATT has no process that provides for timely, accurate, and complete dissemination of these standards and related pronouncements to members. This would be particularly useful to small and medium practices (SMPs). ICATT occasionally brings in a consultant from the United Kingdom to assist practicing members by conducting sessions on compliance with new standards. ICATT should assist its members with the implementation of the ISAs. This is also relevant for implementing the IESBA Code of Ethics and IFRS. These activities could include updating pre- and post-qualification to ensure that courses on the latest international standards have been incorporated, offering other trainings, organizing seminars, and so forth.

- SMO 4 - “IFAC Code of Ethics for Professional Accountants.” ICATT is required to enforce the IESBA Code, which it adopted. However, ICATT issues no compliance guidelines for members, which would be especially useful for SMPs.

- SMO 5 - “International Public Sector Accounting Standards and Other PSC Guidance.” ICATT has no capacity or mechanism to disseminate the International Public Sector Accounting Standards (IPSAS) and related guidance. To be relevant to the public sector, and thus fulfill its national obligations, ICATT needs to play a leading role to foster public sector accounting capacity and assist government institutions with implementation. Although the MOF is serious about implementing IPSAS, currently there are no legal requirements for their application.

- SMO 6 - “Investigation and Discipline.” The integrity of the accounting and auditing profession is built upon the collective reputation of its practitioners. This makes the quality of membership important, and preserving that quality is a major challenge facing the profession faces. A professional body should have mechanisms to investigate and discipline its members. ICATT’s capacities to monitor, investigate, and discipline members needs improvement, as does the collaboration between committees in charge of these activities and the Licensing Committee.

- SMO 7 - “International Financial Reporting Standards.” Although IFRS have been adopted, there are no processes that provide for disseminating implementation guidelines to members to ensure correct application in practice.
28. Country Action Plan. A consultation workshop was organized in June 2012 bringing together various stakeholders to discuss the findings and recommendations of this Trinidad & Tobago ROSC A&A exercise. Participants in the workshop developed the following action plan, which was endorsed by the Government (Ministry of Finance) and ICATT.

Reform Priorities

**AGREED ACTION PLAN WITH THE GOVERNMENT OF TRINIDAD & TOBAGO**

A. Prepare a national strategy for the development of a satisfactory and well-functioning Corporate Financial Reporting Regime, including the cost of its implementation.

B. Strengthen the capacity of national regulatory bodies and the professional accountancy organization to ensure compliance with financial reporting standards.

1. Strengthen the Capacity of the SEC and TTSE. Rationalize and strengthen the focus of the Securities and Exchange Commission (SEC) and Trinidad & Tobago Stock Exchange (TTSE) for effective review and monitoring of financial reports, and provision of feedback to listed companies. In doing so, seek to avoid duplication of efforts between the two regulators.

2. Financial Reporting Oversight Board. Establish a Financial Reporting Oversight Board headed by the SEC Chair and drawing members from the Central Bank, Ministry of Finance, Chamber of Commerce, and ICATT. The Ministry of Finance would also need to provide adequate resources to enable the Board to be effective and implement its mandate.

3. Strengthen, broaden, and deepen monitoring capacity of the Central Bank. Further strengthen the capacity of the Central Bank for effective review and monitoring of the financial reports and provision of feedback to financial institutions. The Central Bank should identify qualified accountants from its current staff and develop the key technical skills for conducting effective and independent review of the financial statements of financial institutions.

4. ICATT Technical Capacity. Strengthen the technical capacity of the Institute of Chartered Accountants of Trinidad & Tobago. Recruit a technical resource, establish additional important committees, and become fully compliant with IFAC Statement of Membership Obligations.

5. ICATT Physical Capacity. Establish an ICATT Center and develop its physical facilities for providing library, classrooms, conference rooms, and research facilities.

6. Outreach to Educational Institutions. Develop accountancy education in universities and tertiary institutions with a view to upgrade the curriculum in graduate programs, which should include IFRS, ISA, IESBA Code of Ethics, and IPSAS.

7. Capacity of the Ministry of Finance. Strengthen the capacity of the SOE unit in the Ministry of Finance to monitor and enforce financial reporting requirements in SOEs.

8. Credit Unions. Improve the corporate governance of these entities.

C. Amend the law and regulations to further improve financial reporting requirements.

1. Define PIEs, SMEs, and micro-entities, along with related accounting and auditing thresholds. Private limited companies should not have the option of not appointing auditors. Develop a financial reporting framework for micro-entities. Auditors of any entity in Trinidad & Tobago should hold ICATT membership.

Annex 3. Jamaica

1. This Annex to the Caribbean Accounting and Auditing review provides an assessment of corporate sector accounting, financial reporting, and auditing practices in Jamaica. The information and conclusions contained within are drawn from the Report on Observance of Standards and Codes – Accounting and Auditing (ROSC A&A) that the World Bank delivered to the Government, and subsequent Bank missions to the country, IMF Article IV reports, communications with the national professional accountancy, central bank, regulatory agencies, and so forth, and from the official websites of such entities. The main objectives of this report are to identify challenges facing the accountancy profession and develop policy recommendations to further enhance the quality of financial reporting in Jamaica.

Country Context

2. Jamaica, the largest English-speaking Caribbean country (population 2.7 million), has a relatively small, open economy concentrated on the services sector (nearly 65 percent of GDP), with a per capita GDP of about $5,500. Over the last three decades, the economy has experienced low economic growth, declining productivity, and reduced international competitiveness, in large measure because of its unsustainable debt burden in the context of repeated financial crises, both domestic and global.

The financial sector is relatively well developed in Jamaica. Jamaican banks offer an extensive array of banking services, with the main institutions being commercial banks, credit unions, and building societies (in addition, there are a few insurance companies and non-banking financial institutions). Despite significant progress made over the last two years, especially in terms of transparency and reporting, the regulatory, supervisory, and institutional frameworks in Jamaica need further improvement and alignment with international standards. The 2012 Annual Report of the country’s central bank (Bank of Jamaica) highlighted a number of pending legislative amendments which, if passed, would strengthen the supervision of financial institutions. In particular, the Bank of Jamaica (BoJ) has been working on an Omnibus Bill that would consolidate

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9 Report on the Observance of Standards and Codes Accounting and Auditing: Jamaica, Report No. ACS9049, June 13, 2014. Given the recent publication of this report, too little time has passed for Jamaica to be assessed on the status of implementation of the report’s recommendations. However, from the perspective of the earlier Report on the Observance of Standards and Codes Accounting and Auditing: Jamaica, June 15, 2003, a mixed record is revealed regarding implementation between the two reporting periods. Broadly, the 2003 recommendations that emphasize relative and less precise measurement (e.g., “should continue to strengthen,” “should modify,” and so forth) are more likely to have valid claims to responsiveness. However, several of the key recommendations of the 2012 review effectively repeat earlier recommendations—for example, with respect to the need to incorporate in law the category of public interest entity and small and medium-size enterprises and their appropriate financial reporting frameworks, and the need for practicing accountants to be conversant with local tax and corporate laws. One key area of progress between the two reviews (reflected in the Good Practice Box on page 17 of this report) is in the area of practice monitoring. Of course in the nature of things, including the evolution of best practices and under the heading of “no good deed goes unpunished,” this present review calls on Jamaica to strengthen the independence of that very monitoring.

10 Unless otherwise specified, the unit of currency used throughout this review is the US$. 

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the different set of relevant laws (*Banking Act, Financial Institutions Act*, and *Building Societies Act*) and remove inconsistencies and distortions.\(^{11}\)

3. The Companies Office of Jamaica (formerly named the Registrar of Companies) lists almost 67,000 companies, of which 1,984 are public companies.\(^{12}\) The country’s Stock Exchanges comprise 57 companies, of which 19 are listed with the Junior Exchange. Most of these companies are small and medium-size enterprises (SMEs). There are also many trade associations in Jamaica, headed by the Jamaica Chamber of Commerce, from which various associations have been formed, including the Jamaica Manufacturers Association, Jamaica Exporters Association, and Jamaica Hotel and Tourism Association (JHTA). In addition, there is a Private Sector Organization of Jamaica and related industry-specific associations, including a Bankers Association (with nine corporate members) and an Insurance Association (most insurance companies are members). These associations do not have any regulatory powers or duties but are very active in the consultative processes set up between the Government and the private sector.

4. The state-owned enterprise (SOE) sector is quite large: it provides significant employment opportunities and is a significant service provider in the formal economy. In September 2011 the Government approved a Corporate Governance Framework, the implementation of which is monitored by the Ministry of Finance and Planning.\(^{13}\) There are 194 SOEs, of which 58 (30 percent) are fully financed from the Consolidated Fund, 47 (24 percent) are partly financed, and the remainder (89) are self-financed (SF). Most of the self-financed entities generate revenues for the Government. The legal framework varies depending on whether they were formed by an Act of Parliament (38 of the SF) or as a limited liability company under the Companies Act (51 of the SF; 74 of the total). All except one of the SF SOEs apply full International Financial reporting Standards (IFRS), are on an accrual basis, and are audited by private sector auditors. (The exception is the Capital Development Fund, which is prepared on an accrual basis subject to full IFRS but is audited by the Auditor General.)

5. There are several auditing and accounting issues which arise when dealing with the SOEs:

- As the entities are owned by the Government, the procurement process for the contracting of auditors for all but the Capital Development Fund is subject to review and clearance by the National Contract Commission and is monitored by the Office of the Contractor General. The process is lengthy and often does not necessarily lead to the selection of the most qualified auditor, as it invariably comes down to the least cost, provided the technical criteria are satisfied.

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\(^{11}\) However, there would remain the issue of BoJ’s lack of independence from the Government, which may potentially impose serious risks to the stability of the system.


\(^{13}\) The Framework (which was revised in October 2012) “provides for the establishment of an effective monitoring arrangement for the operations of Public Bodies by their parent Ministries. The proposed arrangement will facilitate the transparent, efficient and effective use of resources, and make critical linkages to the existing monitoring system in the Ministry of Finance & Planning (MOFP).”
The audited financial statements for SOEs are not all completed and submitted within the legal timeframe; as of November 30, 2013, 20 of the 89 self-financed SOEs were delinquent. Under the IMF agreement all self-financed entity audits must be up to date by 2015. While in theory the Permanent Secretary of the appropriate ministry is held accountable for the submission, often a change of minister or Government disrupts the process and blurs the lines of accountability. Over the last five years, in particular, the Government has placed emphasis on improving the corporate governance of SOEs and updating all audits, and applying sanctions to those that are delinquent.

Statutory Framework

6. The Public Accountancy Act (PAA) 1968 regulates the practice of Accountancy in Jamaica, and the use of Accountancy designations. The Act also provides for the establishment of a regulatory body, the Public Accountancy Board (PAB), as a licensing and regulatory authority within the Ministry of Finance and Planning. PAB licenses those accountants who are qualified to attest as Registered Public Accountants and perform the audit function. Since 2012, PAB has exercised its responsibility as regulator by presiding over a practice monitoring program (with the actual practice monitoring undertaken on contract by the U.K.-based Association of Chartered Certified Accountants).

7. Section 16 of the PAA also established in law that the Institute of Chartered Accountants of Jamaica (ICAJ), a professional membership organization, had the authority to approve accounting and auditing standards in Jamaica. In 2002 Jamaica became one of the first countries to adopt IFRS and the International Standards on Auditing (ISA).

8. There are no comprehensive, differential, and proportionate financial reporting frameworks in Jamaica for eliminating unnecessary financial reporting burdens on enterprises, depending on their asset size or turn-over. To date, there is no definition of a public interest entity (PIE) or SME to support IFRS and IFRS for SMEs reporting frameworks. In addition, micro entities are not defined in law, and lack a financial reporting framework applicable to their size and profiles. While addressing these matters will be important in terms of adding coherency and efficiency to the regulatory framework, the issue with PIEs extends far beyond this concern, particularly when the PIE is a financial institution that holds assets in a fiduciary capacity for a large number of stakeholders. Such PIEs, if inadequately monitored and regulated, have the potential to adversely impact a country’s financial health or that of a large segment of the populace.14

9. The Companies Act 2004 requires all limited companies to present financial statements, including, when appropriate, consolidated financial statements. Listed companies issue unaudited quarterly financial reports. ICAJ is responsible for adopting/issuing accounting standards for use in these financial statements, and it requires members to follow them. The

14 However, PAB has recently undertaken a review of proposed legislation relating to the practice of public accountancy in Jamaica. The review has resulted in a number of recommendations to amend the PAA; among other matters, this would include the definition of a public interest entity.
observance of ICAJ-issued accounting standards is required under the legal and regulatory framework for entities directly supervised by the following organizations:

- Bank of Jamaica—commercial banks (licensed under the *Banking Act*), near-bank deposit-taking intermediaries (such as merchant banks), trust companies, and finance houses (licensed under the *Financial Institutions Act*), and building societies (licensed under the *Building Societies Act*).
- Financial Services Commission—securities dealers, pension funds, trust companies, and insurance companies.
- Jamaica Stock Exchange—listed companies.

10. The Companies Act 2004 also requires that the financial statements of all limited companies be audited unless exempt. An auditor must be a Registered Public Accountant licensed by PAB. The Act exempts very small companies from the compulsory audit requirement. Standards required for the audit of financial statements are set out in the Companies Act.

11. Various Acts or supervisory regulations require varied filing and public reporting of their relevant business entities’ financial statements. As noted, all financial institutions are required to follow IFRS. In addition, banks are required to provide Large Exposures Reporting, Capital Adequacy Reporting on a sole and consolidated basis, Connected Party Exposures, Monthly Balance Sheet and Profit and Loss Reports, Asset Quality Reports for loans, Investment Reports and Market Risk Reports, and Quarterly Shareholding Reports. Banks are required to submit monthly, quarterly, and annual financial reports to BOJ. Consolidated audited financial statements are to be published.

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<td>Companies Act</td>
<td>Stock Exchange</td>
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<td>To Stock Exchange (audited annual financial statements within 90 days of year end and quarterly financial statements within 40 days of period end) To the Companies Office of Jamaica (audited financial statements within 90 days of yearend)</td>
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<td>• Bank of Jamaica</td>
<td>IFRS indirectly legislated (ICAJ Act)</td>
<td>• By approved PAB Registrants • ISA</td>
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**Regulatory Environment**

12. Monitoring of listed companies by the Jamaica Financial Services Commission (FSC), Jamaica Stock Exchange (JSE), and Bank of Jamaica is limited to ensuring that these companies file within the prescribed time and that the financial statements are complete.
13. The Bank of Jamaica is the regulatory authority for banks and similar financial institutions. This oversight is limited to prudential regulatory supervision.\textsuperscript{15} The Bank of Jamaica plays no significant role in enforcement of financial reporting requirements. It also does not check compliance with mandatory accounting, auditing, and financial reporting requirements applicable to general purpose financial statements. For this they rely on external auditors. Non-compliance with mandatory requirements (e.g., timeline for submission of audit reports) attracts substantial fines or other sanctions on the institutions. Officers and directors may be held personally liable. Qualified audit opinions, which are rare, trigger a review and assessment of the situation by Bo to establish the impact on the safety and soundness of the institution. BoJ has power to require the production of any document from the audited institution or statutory auditor.

14. Non-banking financial institutions (NBFIs) are regulated by FSC. The regulators do not monitor general purpose financial statements for compliance with accounting and auditing standards. However general monitoring of records and assessment of internal controls takes place during on-site visits. Inspectors of financial institutions occasionally collaborate with the auditors.

15. The auditing of public companies and financial institutions is largely performed by international firms. The limited sample of audited financial statements reviewed as part of the Jamaica ROSC exercise revealed that all the listed companies in the sample meet IFRS requirements. However, by a wide margin most companies registered in Jamaica are small and medium-size enterprises (SMEs) audited by small and medium-size practices (SMPs); these struggle to fully comply with IFRS.

The Accountancy Profession

16. ICAJ is a member of the Institute of Chartered Accountants of the Caribbean (ICAC) and a full member of the International Federation of Accountants (IFAC). In 2002, through ICAJ, Jamaica became one of the first countries to adopt the International Accounting Standards (IAS), International Financial Reporting Standards (IFRS), and International Standards on Auditing (ISA) as its national accounting and auditing standards; IFRS for SMEs were adopted by ICAJ some three years later. These moves brought Jamaica in line with European standards.\textsuperscript{16} ICAJ has adopted IFRS for all regulated entities (limited companies and publicly listed companies), simplified IFRS for SMEs, and International Accounting Standards Board (IASB) pronouncements without modification. ICAJ requires that its members comply with the Code of Ethics of the International Ethics Standards Board for Accountants (IESBA), Continuing Professional Development (CPD) requirements, and other professional regulations.

\textsuperscript{15} Legal requirements for monitoring accounting and auditing compliance are in the Companies Act, Financial Institutions Act, and ICAJ rules. There are no significant differences in the accounting requirements for regulatory reporting and for general purpose financial reporting.

\textsuperscript{16} However, there remained a discrepancy, and attendant reconciliation burden, with respect to the U.S. Securities and Exchange Commission (SEC), which applied Generally Accepted Accounting Practices (GAAP). In June 2007, the U.S. SEC allowed use of IFRS, removing the burden of reconciliation.
17. While ICAJ has some 1,244 members and 3,958 students registered under a joint scheme with the U.K.’s Association of Chartered Certified Accountants (ACCA),\(^{17}\) it is estimated that there are about 3,000 accountants in Jamaica, of which about 275 members are licensed by PAB a to attest as “Registered Public Accountants” and perform the audit function. The remainder of the certified accountants do not conduct audits (as they are not licensed by PAB to do so); they operate either in the public sector (e.g., in line ministries) or in private sector entities.

18. Thus, although ICAJ sets standards for the performance of the accountancy profession in Jamaica and regulates and monitors its members, it effectively has no control over the majority of Jamaica’s qualified professional accountants who are not ICAJ members.\(^{18}\) This results in differential regulation and the potential for regulatory arbitrage.\(^{19}\)

19. All members of ICAJ who wish to retain their practicing certificate must satisfy the CPD requirements on an annual basis. For the most part, CPD credits are obtained through attending qualified seminars (which as a member of IFAC must satisfy SMO 2: “International Education Standards for Professional Accountants and Other EDCOM Guidance”). ICAJ recently reached an agreement with the University of the West Indies (UWI) to develop an appropriate testing mechanism to assess whether the more than 3,600 accounting students associated with ICAJ are conversant with local taxation and corporate/business law.

20. ICAJ passed a by-law mandating that all its practicing members obtain professional indemnity insurance (PII) on a three-year phased basis. This is a step in the right direction. Although some SMPs express concern with respect to the attendant financial costs, ICAJ does not foresee these costs to be a significant burden to SMPs as it is anticipated that the premiums would be proportionate to the size and complexity of the practices concerned (and would certainly be far below the cost of defending a claim of negligence, especially if that claim were upheld). Moreover, the greater the number of practices that are required to obtain PII the higher the likelihood that more competitive premiums could be negotiated on the basis of a “group.”

21. ICAJ has submitted its Compliance Program Action Plan to IFAC, highlighting its planned activities for the coming years. Significant priorities in the Action Plan include (a) enhancing ICAJ’s relevance to the Government (with external technical assistance); and (b) making appropriate arrangements for the recruitment of a Technical Director to enhance ICAJ’s technical capacity. ICAJ’s status with respect to IFAC Statement of Membership Obligations (SMOs) faces challenges, as noted below.

- SMO 1- “Quality Assurance.” As an IFAC member body, ICAJ has an obligation to encourage and support its members, by disseminating quality control guidelines

\(^{17}\) ACCA is a professional accountancy body that offers worldwide professional accountancy programs and qualifications to its members and registered students, and support to other accountancy bodies worldwide. Most of the qualified accountants in Jamaica (as elsewhere in the Caribbean) are accredited by ACCA, and are not Chartered Accountants. A professional accountant in Jamaica could only use the designation as “Chartered Accountant” when s/he becomes member of ICAJ.

\(^{18}\) Members of ICAJ, ACCA, the American Institute of Chartered Public Accountants (AICPA), the Chartered Professional Accountants of Canada, Institute of Chartered Accountants of England and Wales (ICAEW), Institute of Chartered Accountants of Scotland (ICAS), and Institute of Chartered Accountants of Ireland (CAI) are subject to oversight and/or regulation by their respective professional bodies.

\(^{19}\) To date, there is little evidence that this potential has been manifest in practice.
requiring firms to implement a system of quality control in accordance with International Standards on Quality Control (ISQC) 1: "Quality Controls for Firms that Perform Audits and Reviews of Financial Statements and Other Assurance and Related Services Engagements" and ISA 220: "Quality Control for an Audit of Financial Statements." The recent audit quality practice monitoring reviews contracted to ACCA found widespread shortcomings; going forward, such reviews may need to be institutionalized in Jamaica through PAB/ICAJ and follow-up efforts initiated to strengthen practices (as PAB and ICAJ intend).

- SMO 2- “International Education Standards for Professional Accountants and Other EDCOM Guidance.” Given its current financial and technical capacity and the absence of a local or regional qualification, ICAJ is not in a position to comply fully with the requirements of SMO 2. ICAJ does not conduct its own professional examinations (these have been outsourced to international accountancy bodies, such as ACCA, that are active in the Caribbean and also to the University of West Indies); however, ICAJ has committed to developing a framework to implement a five-year program to expand professional accountancy education requirements, and it is preparing a framework for developing the educational requirements to incorporate Jamaican corporate and tax laws into examination papers.

- SMO 2- Entry Requirements to a Program of Professional Accounting Education.” Monitored practical training requirements as part of training for ICAJ membership are not being reviewed by ICAJ to ensure they are aligned with the International Education Standards (IES) issued by IFAC or with its own requirements. However, ICAJ has an active Continuing Professional Development (CPD) committee that ensures that CPD courses cover new standards and changes to existing standards and that in all cases they meet the minimum requirements of IES 7: “Continuing Professional Development: A Program of Lifelong Learning and Continuing Development of Professional Competence.”

- SMO 3- “International Standards, Related Practice Statements and Other Papers Issued by the IAASB.” Although International Standards on Auditing are adopted, ICAJ lacks a process to provide timely, accurate, and complete dissemination of these standards and related pronouncements to members. This would be particularly useful to small and medium practices (SMPs). ICAJ occasionally brings in resource persons from outside Jamaica, particularly from the United Kingdom, to organize CPD courses on highly technical subjects, such as IFRS. The CPD courses are also complemented by local resource persons having expertise in IFRS and ISA.

- SMO 4- “IFAC Code of Ethics for Professional Accountants.” ICAJ is required to enforce the IESBA Code, which it has adopted. ICAJ has in the past conducted some investigations based on complaints lodged by the public. However, ICAJ does not proactively conduct any investigation, and IFAC’s SMO Action Plan Progress File Note as of April 2013 states that “ICAJ reportedly has processes to ensure the Code is updated … however, no results of the processes are communicated to IFAC and it is unclear if most recent modifications have been addressed.”

- SMO 5- “International Public Sector Accounting Standards and Other PSC Guidance.” The Government has deferred the launch of IPSAS until implementation
of its Central Treasury Management System. IFAC’s SMO Action Plan Progress File Note as of April 2013 states that “ICAJ has a defined plan to promote the adoption of IPSAS in Jamaica and provide support to the government.” To be relevant to the public sector, and thus fulfill its national obligations, ICAJ needs to play a leading role in fostering public sector accounting capacity and assisting government institutions in IPSAS implementation. The World Bank recently organized two seminars in Jamaica on the Rationale for Implementing IPSAS.

- SMO 6- “Investigation and Discipline.” The integrity of the accounting and auditing profession is built on the collective reputation of its practitioners. This makes the quality of membership important, and preserving that quality is a major challenge facing the profession. PAB has ultimate authority for Investigation and Discipline of its registrants. IFAC’s SMO Action Plan Progress File Note as of April 2013 states that, “ICAJ reports to have adopted SMO 6 requirements for I&D for its members.” ICAJ has the capacity to monitor, investigate, and discipline its members.

- SMO 7- “International Financial Reporting Standards.” IFRS were adopted by ICAJ in full and without modification, and are mandated in Jamaica for the profession.

22. ICAJ should further strengthen its institutional capacity in a number of areas to enable it to fulfill its IFAC membership obligations. At present ICAJ assists its members with ISA implementation, which is relevant for implementing the IESBA Code of Ethics. Activities include updating pre- and post-qualification accountants on the latest international standards, offering training in other related areas, and organizing seminars on relevant topics. Attaining and maintaining adequate institutional capacity will also enable ICAJ to require and enforce a system of compliance with international good practices, improve user confidence in financial statements, generate public interest, and enhance the professional reputation of the Institute and its members.

23. It is recommended that a Country Action Plan be prepared by the Government drawing on the recommendations of this report. The main text of the report proposes a number of reforms. The Indicative Action Plan immediately below prioritizes the most pressing needs reflected through the prism of existing capacity challenges facing the Government and the profession, and was accepted by the Ministry of Finance, regulatory agencies, and ICAJ.
Action Plan: Key Recommendations Agreed with the Government of Jamaica

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<th><strong>A. Short-Term Reforms (1 to 2 years)</strong></th>
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<tr>
<td>1. <strong>Define public interest entities (PIEs) and small and medium-size enterprises (SMEs).</strong> Clearly define PIEs and SMEs and establish an appropriate differential financial reporting framework in line with size, stakeholders’ interest, and (especially) potential for adverse systemic impact or wide-ranging adverse impact on the populace, etc. PAB is quite proactive and already working on draft Public Accountancy Amendment Act.</td>
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<tr>
<td>2. <strong>Strengthen ICAJ Capacity.</strong> Strengthen the capacity of ICAJ in the area of technical support for international financial reporting and auditing standards, particularly to assist SMPs, and in the area of ICT.</td>
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<td>3. <strong>Develop the capacity of the PAB Secretariat and institutionalize practice monitoring.</strong> The capacity of the PAB secretariat should be strengthened to enable PAB to institutionalize and undertake regular practice monitoring in conjunction with ICAJ and ICAC. This will place PAB in a leadership position to provide this service to Jamaica and also other Caribbean countries.</td>
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<td>4. <strong>Strengthen monitoring of SOEs.</strong> The Ministry of Finance and Planning should more closely monitor SOEs, and sanctions should be applied for delinquent reporting. Many SOEs, although having the same reporting requirements as private entities, are delinquent, particularly with respect to the timing of the audit. Recently steps have been taken to amend legislation and to report delinquent SOEs to the Attorney General.</td>
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<td>5. <strong>Strengthen regulatory capacity.</strong> Strengthen the regulatory capacities of BOJ, FSC, and JSE with respect to accounting and auditing. The staff of these institutions needs strengthened skills to enable them to more effectively monitor and enforce compliance with the reporting requirements of the entities for which they are responsible.</td>
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<p>| <strong>B. Medium- and Long-Term Reforms (3 to 6 years)</strong> |</p>
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<th><strong>6. Increase ICAJ membership base and image, and fully comply with IFAC SMOs.</strong> The Institute should (a) reach an understanding with MOFP to foster membership for all public sector accountants so that they could update their knowledge by participating in CPD courses organized by the Institute. ICAJ should also embark on an outreach program (including to students with high academic performance) to build awareness of the profession and its role/importance; and more fully collaborate with IFAC to fulfill SMOs, including by strengthening the training and education in International Public Sector Accounting Standards.</th>
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<td><strong>7. Establish legal requirements for audit report for tax compliance.</strong> The Tax Authority of Jamaica may wish to consider accepting audited financial statements of listed and private companies with defined thresholds to support Income Tax Returns, thus promoting financial discipline and audit compliance.</td>
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<td><strong>8. Establish a central repository of audit reports.</strong> PAB may wish to consider establishing a repository of all audited financial statements for private unregulated companies and the requirement for submitting such accounts should be included in the forthcoming draft Public Accountancy Amendment Act. PAB oversight might encourage timely audit of these companies, which in turn might strengthen financial discipline in Jamaica’s corporate sector.</td>
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<td><strong>9. Review/audit interim financial reports of listed companies.</strong> Consider the value of reviewing/auditing the interim financial reports of all listed companies by their auditors before these are made available to the print and electronic media. It is recommended that the JSE regulations be amended to mandate such review.</td>
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Annex 4. Barbados

1. This Annex to the Caribbean Accounting and Auditing review provides an assessment of accounting, financial reporting and auditing practices in the public and private sectors in Barbados. The information and conclusions contained within are drawn from Bank missions to Barbados, IMF Article IV reports, communications with the national professional accountancy body, central bank, regulatory agencies, and so forth, and from the official websites of such entities. The main objectives of this report are identify challenges facing the accountancy profession and develop policy recommendations to further enhance the quality of financial reporting in Barbados.

Country Context

2. Barbados, with a land area of 166 sq. mi. and an estimated population (2014) of about 286,000, is one of the most developed islands in the Caribbean. Economic activity relies heavily on tourism and the offshore business sector. Per capita income is US$16,150 and Barbados has the best human development indicators in the region, a testament to the country’s high standards of equity and social protection. For decades the country has benefited from a strong tradition of consultation and cooperation among labor, government, and the private sector, though this is now being tested by the challenging economic circumstances. The 2008 global financial crisis hit Barbados hard and performance has been weak since then. The economy has contracted, on average, by 0.6 percent annually since 2008. Growth is highly correlated with that of the U.K., and tourism from there has not recovered from the sharp drop in 2009. Expansionary fiscal policies and weak revenues have led to a surge in public debt and fiscal financing pressures. Under the exchange rate peg and with monetary policy accommodative, foreign reserves declined through 2013 and confidence waned. In response, the authorities announced fiscal consolidation proposals in August 2013 and more ambitious measures in December aimed at arresting the slide in reserves. IMF 2015 projections for Barbados indicate a real GDP growth of 0.6 percent and gross public debt of 111 percent.

3. The banking sector is relatively well developed. It consists of large offshore and onshore operations, with the onshore sector dominated by large, regionally active banks. Like the banking sector, the insurance sector is dichotomous, with an onshore sector and international sector. General insurance dominates the local sector, with insurance premiums double those of life insurance. Insurance premiums at about 10 percent of GDP make the onshore sector significant to the economy.

4. The SOE sector is significant in Barbados; while it accounts for only 1 percent of GDP, it absorbs 27 percent of Government of Barbados (GoB) expenditure. There are 56 SOEs (the most prominent are in the energy, financial services, manufacturing, tourism, social services, and sports and culture sectors). A few are registered under the Companies Act; the majority of SOEs have statutory boards appointed by GoB. Twenty are self-financed.

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1 Even as the U.K. economy recovers, tourism from Barbados’ leading destination (followed by the U.S., Canada, and the Caribbean, respectively) will not be aided by the U.K.’s recent decision to impose a new tax on air travel.
5. Micro, small and medium-size enterprises (MSMEs) contribute 50-60 percent to GDP. They benefit the economy by creating backward and forward economic linkages and employment. There are about 11,500 MSMEs spread over diverse sectors, characterized by relatively poor management structures and financial reporting systems and hence limited access to finance.

6. The Barbados Stock Exchange comprises 24 companies, local and regional (Trinidad & Tobago and Jamaica); there are no international firms. Its listing requirements include audited financial statements prepared and audited in accordance with standards acceptable to the Exchange. Market capitalization is approximately Bds $11 billion. The junior market is comprised of 4 companies. The index has declined since 2010. There is not much trading on the floor and not much ‘free float’; nor is there any substantive use of derivatives and highly collateralized instruments.

7. The Central Bank, the Barbados Bar Association, the Barbados Chamber of Commerce, and the Institute of Banking and Finance sit on the Exchange’s Board of Directors. The Audit and Finance Committee reviews financial performance and signs off on and prepare for the audit of the Exchange. The Exchange has corporate governance guidelines for its clients, but it is not member of International Organization of Securities Commissions (IOSCO) and is only a corresponding member of the World Federation of Stock Exchanges.

8. As a public interest entity (PIE), the Exchange applies full IFRS. For its clients, accountants/reporting must be IFRS and ISA compliant. Companies are usually audited by Big 4 firms, although a few small companies use SMPs. The Exchange receives quarterly and annual financial statements from companies listed on the Exchange, which go to its own Compliance Department. The reports are examined from a firm solvency perspective as well as with respect to cash flow and return on assets/equities. The Exchange’s main concern is that companies publish their financial statements.

Statutory Framework and Regulatory Roles

9. The Companies Act Chapter 308 addresses financial reporting requirements. It sets out mandatory audits for all public companies and private companies with annual sales and assets above set amounts (from January 2014, Bds$ 4million/US$ 2 million). Auditors must be members of the Institute of Chartered Accountants of Barbados (ICAB) and hold a practicing certificate issued by the Institute.

10. Government requires all regulated entities to be audited. The main regulators are Central Bank of Barbados and the Financial Services Commission (FSC). The Central Bank of Barbados functions under the Financial Institutions Act to regulate commercial banks, trust companies, finance companies, and merchant banks. FSC functions under the Financial Services

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5 But its regulator (Financial Services Commission) is a member of IOSCO.

11. All SOEs are supposed to use IFRS; the majority use private auditors. The Ministry of Finance’s Accounting Unit is tasked with collecting their financial statements for Parliamentary submission. However, the Accounting Unit has no sanctioning power; doubtless this is a contributory factor for tardy or non-existent filing (the National Insurance Board has not filed since 1999). GoB is moving from cash to accrual accounting and bringing the SOE financial reporting into a consolidated report; thus, IFRS will soon be replaced by IPSAS. Soon statements/SOE will be consolidated into GoB accounts and will use IPSAS.

12. All listed companies must use IFRS and be audited by ICAB licensee (per the Securities Act, the Mutual Funds Act, and the overarching FSC Act). Most audits of listed companies are undertaken by Big 4 firms. MSMEs that do not use IFRS or IFRS for SMEs may use any other GAAP approved by ICAB.

13. FSC receives quarterly statutory reports from firms. When a financial statement comes to FSC it applies a risk framework and checks interim reports. It has the authority to contact the auditor directly. In practice, and given limited resources and its recent establishment, FSC is more reactive than proactive (the FSC Investigation team enters the picture on the basis of reports to FSC and its independent reading of records). It relies heavily on the work of auditors (FSC does not examine the working files of audits). From both desk review and its on-site assessment, FSC supplies companies with a report on what needs to be improved. To date it has never sanctioned a broker or a company. FSC circulates corporate governance guidelines for the sectors it regulates.

14. FSC recently examined the Stock Exchange with respect to internal control, governance, and its future viability of organization. Although the guidance offered made sound sense theoretically, there was some concern expressed by the Exchange about its practicality measured against limited resources.

15. Domestic, international, exempt insurance, and other entities (including non-profit and charitable entities) must register with the Registrar of Companies if they meet the Bds $4 million threshold (Section 1:52 of Companies Act), and they are required to send audited financial statements to shareholders. However, Registrar of Companies does not monitor statutory filings. The only time when the registration entity would become aware of tardy or non-existent filings would be if a firm required from them a Certificate of Good Standing. Perhaps not surprisingly, many companies do not file in a timely fashion—or at all.

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6 In 2011, with the passage of this Act, FSC assumed some of the regulatory and registration responsibilities of the Barbados Securities and Exchange Commission (BSEC), the Stock Exchange (SRO), and two other entities. (SRO sets requirements for market actors; FSC licenses securities dealers after they meet SRO requirements.)

7 It is realized that the same might be said by some with respect to this Caribbean ROSC A&A recommendations.

The Accountancy Profession

16. ICAB was created by the Institute of Chartered Accountants of Barbados (Incorporation) Act 1974. It is a member of the International Federation of Accountants (IFAC) and of the Institute of Chartered Accountants of the Caribbean (ICAC). ICAB has some 825 members (of whom 180 hold practicing certificates and are therefore licensed to audit) and some 1,000 students. There are 38 audit firms working in the country, with all the “Big 4” network firms present plus a number of small and medium-size practices (SMPs). The Institute’s secretariat needs strengthening to enable it to effectively serve its members and students, successfully support the implementation of all adopted standards, and play its role representing the profession on the national level. Most of the Institutes functions’ are being performed through committees composed of volunteers.

17. The Institute accepts members of other IFAC member bodies into its membership without further examination. However, for professional accountants to practice in Barbados they need to provide proof of monitored practical experience obtained before, during, or after qualification, be licensed by the Institute and issued with a practicing certificate, and be locally resident (though the ICAB Council can waive requirement—e.g., for Big 4 personnel).

18. The Institute is the standards-setter for accounting and auditing, and the regulator of the profession. It has adopted international standards issued by the International Accounting Standards Board (IASB) and all the IFAC standards-setting bodies. Through committees, it is actively involved in implementation activities of these standards. It requires all accountants in practice to be a member of, and licensed by, the Institute, and it requires proof of monitored practical experience before it accepts applicants into membership. It has the responsibility to license and regulate auditors, ensuring they comply with ISA in managing their offices and conducting audits. In an effort to comply with IFAC SMO 1 (“Quality Assurance”), a tripartite Monitoring Contract between ICAB, ACCA, and ICAC to monitor audit quality at the engagement level was entered into and took effect on January 1, 2009. All practicing members who perform audit services are reviewed. (The review cycle is six years, except for auditors of public interest entities, where the cycle is three years.) ICAB has been holding CPD training every year since 2009 on practice monitoring and ISA application on audits. It has a fully functional Practice Monitoring Committee. The terms of reference of the committee are to:

- Review reports on practice monitoring program
- Recommend action to be taken in respect of deficiencies
- Identify general trends emerging and recommend future CPD or other technical initiatives to improve outcomes of practice reviews.


The committees are Accounting and Auditing Standards, Administration, Appeals, By-laws review, Communications, Continuing Professional Development, Discipline, Ethics, Investigations, Legislation, Practice Monitoring, Public Sector, Student and Member Services, and Taxation.

The most common are the U.K.’s Association of Certified Chartered Accountants (ACCA), Certified General Accountants Association of Canada (CGA), Institute of Chartered Accountants of England and Wales (ICAEW), and American Institute of Certified Public Accountants (AICPA).

This function takes on added significance as there is, in Law, no formal definition of an “accountant,” which often functions as a largely clerical job title rather than a professional qualification.
19. However, the tripartite practice review function is not fully independent of the accountancy profession; among other factors, although ACCA performs the reviews, it has no power of sanction. All it is mandated to do is play an advisory role. Any action requiring sanction is referred to the Institute. Additionally, ACCA is a professional accountancy body which is active in Barbados and its reviews may not be viewed by all stakeholders as having the same weight as those undertaken by a fully independent oversight body.\footnote{The plurality of Caribbean accountants that maintain an affiliation with an international accountancy body do so with ACCA (though only a minority of these are Chartered Accountants). ACCA, through its support for CPD and practice monitoring (among other things), has contributed significantly to the profession’s development within the region. Notwithstanding this contribution, ACCA is itself a professional accountancy body—and one that has a commercial relationship with the Caribbean’s national PAOs. It is thus far from unreasonable for some stakeholders to perceive a potential for conflict of interest in its monitoring of these PAOs and to judge that a fully independent oversight body (such as Jamaica’s Public Accountancy Board) would be a preferable option in principle—even recognizing that the ACCA-conducted monitoring reviews are independent of the national PAO being reviewed. (However, in the first instance ACCA cannot sanction any failings—which responsibility falls to the PAO, further limiting independence—although ACCA could introduce sanctions in the absence of PAO action if the party concerned was an ACCA member.) Moreover, such a fully independent option is clearly the emerging best practice norm worldwide—though (as could be expected) the earliest adopters tend to be clustered in the more highly developed market economies. This lack of full independence may attenuate the full benefit of the regulatory function. From the perspective of national PAOs, however, this potential issue may well be outweighed by the more practical concern with resources: with practice monitoring supervision missions averaging \$22,000 there is a substantial burden imposed on national professional accountancy organizations. Thus, for example, in 2012 and 2013 the second-largest expenditure category for the Institute of Chartered Accountants of Guyana was practice monitoring. (See ICAG Annual Report 2013, report of independent auditor, page 24.) For its part, IFAC has noted that while “[t]he establishment and effective implementation of the regional practice monitoring system is critical to the sustainable achievement of quality control assurance by practicing members … [a]nother critical … area is the requirement for adequate training of practitioners at cost effective rates on a sustainable basis” [emphasis added]. See Action Plan Developed by the Institute of Chartered Accountants of Jamaica, April 2013, page 5, at \url{http://www.ifac.org/about-ifac/membership/compliance-program/compliance-responses}.}

20. Although ICAB is not involved in the provision of accountancy education to students (which is provided by independent education providers), it has an active Continuing Professional Development (CPD) function. New CPD regulations were approved in March 2013, reflecting IFAC guidance on best practices for Institutes (Establishing and Developing a Professional accountancy Body, 2010). It annually offers full-day CPD seminars on IFRS, IFRS for SMEs, ISA, plus other ad-hoc training. Last year, 26 seminars constituting 149 hours were offered, enabling members to meet the 20 hours/year IFAC requirement, which ICAB monitors.

21. Some of the Institute’s committees have been very active. The Public Sector Committee has been particularly effective and visible both in Barbados and the region. It has been involved in joint initiatives with government agencies to promote ICAB membership to accountants in the public sector, promoting good governance and accountability in the practice sector and implementation of International Public Sector Accounting Standards (IPSAS) in the public sector. The Institute of Chartered Accountants of Trinidad & Tobago has requested assistance from the ICAB Public Sector Committee in establishing its own public sector committee—a good example of regional “peer learning.” In addition, there has been active participation and contribution to changes in legislation (e.g., the Prevention of Corruption Act and the Financial Institutions Act) and on other relevant matters (e.g., taxation issues, etc.).
22. Barbados’ status with respect to the IFAC Statement of Membership Obligations (SMOs), which are analyzed in Table 1, reinforce the view that the Institute is in need of a technical resource within its secretariat to ensure the effective discharge of its responsibilities on technical issues to various stakeholders.

Table 1. Barbados: Assessment of Current Status of Compliance with IFAC SMOs 1-7 (Revised)

<table>
<thead>
<tr>
<th>SMO</th>
<th>Degree of Responsibility</th>
<th>Current Status and Challenges</th>
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<tbody>
<tr>
<td>SMO 1 Quality Assurance</td>
<td>Direct</td>
<td>Although implementation is delegated to ACCA, ICAB remains the responsible party for this SMO. Implementation by ACCA falls short of IFAC requirements. Only engagement reviews are done, whereas IFAC requires firm reviews to be done as well to ensure compliance with ISQC 1. Additionally, ACCA as the reviewer has no powers to sanction. Report findings requiring sanction are referred to the ICAB Council, which effectively makes it self-review regulation. ICAB has to ensure its full responsibilities as a regulator of the accountancy profession are met.</td>
</tr>
<tr>
<td>SMO 2 International Education Standards for Professional Accountants and other IAESB Guidance</td>
<td>Direct</td>
<td>Although ICAB does not administer examinations, it remains responsible for ensuring that the quality of students entering professional training (and those subsequently entering the profession) is high. It must use its best endeavors to influence tuition providers to achieve this. It has direct responsibility over CPD and must ensure the number of CPD sessions and subject coverage is adequate to maintain high-quality technical competence among members. IFAC International Education Standards must be used as a benchmark. Efforts must be made to ensure members of other professional accountancy bodies admitted into ICAB membership write and pass local knowledge papers in Barbados Business and Taxation Laws, particularly if they are going into public practice.</td>
</tr>
<tr>
<td>SMO 3 International Standards, Related Practice Statements, and Other Pronouncements Issued by IAASB</td>
<td>Direct</td>
<td>IAASB pronouncements have been adopted without modification. ICAB must ensure the edition it adopts is always the latest edition. The current regulatory reform project must ensure this is achieved by effecting necessary provisions. It must also assist with implementation activities, particularly aimed at assisting SMPs.</td>
</tr>
<tr>
<td>SMO 4 IESBA Code of Ethics for Professional Accountants</td>
<td>Direct</td>
<td>ICAB must ensure it adopts the latest edition of the Code of Ethics and ensure it is implemented. Currently, the adopted version of the Code is that of 2009.</td>
</tr>
<tr>
<td>SMO 5 International Public Sector Accounting Standards and</td>
<td>Direct</td>
<td>The Government of Barbados moved to accrual accounting in 2007 and the Financial Management Act identified IPSAS as the accounting standards for the public sector. As the national</td>
</tr>
<tr>
<td>SMO</td>
<td>Degree of Responsibility</td>
<td>Current Status and Challenges</td>
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<tr>
<td>Other IPSASB Guidance</td>
<td>standards-setter, ICAB has direct responsibility for adopting the standards and a shared responsibility with the Ministry of Finance over implementation. To this end, ICAB has established a Public Sector Committee and has ensured that relevant CPD for members working in the public sector. ICAB must maintain the current collaboration with the Ministry of Finance, which in Phase 2 of the IPSAS project is working on the production of consolidated financial statements for the Government.</td>
<td></td>
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<tr>
<td>SMO 6 Investigation and Discipline</td>
<td>Direct. The Institute was mandated to investigate and discipline its members by amendments to the ICAB Act 2007. It must ensure it discharges its responsibilities effectively by involving non-accountants in the disciplinary process.</td>
<td></td>
</tr>
<tr>
<td>SMO 7 International Financial Reporting Standards</td>
<td>Direct The Institute must ensure there is compliance with the adopted standards by assisting with implementation activities, including through dissemination of implementation material and facilitating and conducting workshops, seminars, train-the-trainer activities, etc.</td>
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23. ICAB has identified its most significant immediate challenges: (a) completion of its ongoing Regulatory Reform Project, which includes a comprehensive review and revision of its By-Laws, Rules, and Regulations;\(^\text{14}\) (b) strengthening its oversight, investigation, and discipline procedures; (c) incorporating a local knowledge requirement (corporate/business law and taxation) into ICAB’s qualification criteria; (d) inadequate technical capacity (e.g., the lack of a technical director) to analyze and comment on exposure drafts, conduct accounting research, and provide technical support for SMPs, (e) concluding Mutual Recognition Agreements with other regional Institutes and those in the European Union, as required by the terms of the Economic Partnership Agreement (EPA) with the latter, and providing marketing and other support to members seeking to export accounting and auditing services; and (f) securing resources for the development of an Accounting Academy Complex for ICAB to enable expanded service delivery, including support for accounting education and continuing professional development. While this is a full agenda, the more pertinent point is that the profession is one of the region’s leaders, as evidenced by its autonomous ability and determination to identify and address its own shortcomings.

24. The main text of the report proposes a number of reforms. The Indicative Action Plan immediately below prioritizes the most pressing needs reflected through the prism of existing capacity challenges facing the Government and the profession. With respect to national actions,\(^\text{14}\) This important work has been delayed by the lack of financial resources to fund the work of external consultants. Instead, as is common among the region’s PAOs, the task has been taken on using ICATT’s own (limited) resources. See Action Plan Developed by the Institute of Chartered Accountants of Barbados (Update: April 2014), page 13, at [http://www.ifac.org/about-ifac/membership/compliance-program/compliance-responses](http://www.ifac.org/about-ifac/membership/compliance-program/compliance-responses).
clearly PAOs (even with ICAC assistance) cannot be the determinative agency, although their advocacy for these items can accelerate their progress.

### Indicative Action Plan: Key Recommendations Agreed with ICAB

<table>
<thead>
<tr>
<th>A. Short-Term Reforms (1 to 2 years)</th>
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<tbody>
<tr>
<td>1. Define public interest entities (PIEs) and small and medium-size enterprises (SMEs). Clearly define PIEs and SMEs and establish an appropriate differential financial reporting framework in line with size, stakeholders’ interest, and (especially) potential for adverse systemic impact or wide-ranging adverse impact on the populace, etc.</td>
</tr>
<tr>
<td>2. ICAB’s financial and infrastructure capacity. Develop a more robust revenue-generating potential and establish a BICA Center to develop its physical facilities for providing library, classrooms, conference rooms, and research facilities.</td>
</tr>
<tr>
<td>3. Strengthen monitoring and disciplining of SOEs that are tardy in meeting their reporting requirements.</td>
</tr>
<tr>
<td>4. Strengthen regulatory capacity. Strengthen the capacity of all regulators with respect to accounting and auditing. These institutions should enhance their capacity to monitor and enforce compliance with the financial reporting requirements of the entities for which they are responsible.</td>
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<tr>
<td>5. Ensure IPSAS adoption and implementation.</td>
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<tr>
<th>B. Medium- and Long-Term Reforms (3 to 6 years)</th>
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<tbody>
<tr>
<td>1. Strengthen ICAB technical capacity. Strengthen the capacity of ICAB in the area of technical support for international financial reporting and auditing standards to assist its members.</td>
</tr>
<tr>
<td>2. Review/audit interim financial reports of listed companies. Consider the value of reviewing/auditing the interim financial reports of all listed companies by their auditors before these are made available to the print and electronic media.</td>
</tr>
<tr>
<td>3. Transform the existing central repository of audit reports into an e-repository for greater ease of access.</td>
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Annex 5. OECS

1. This Annex to the Caribbean Accounting and Auditing review provides an assessment of corporate sector accounting, financial reporting, and auditing practices in the member states of the Organisation of Eastern Caribbean States (OECS). The information and conclusions contained within are drawn from the ROSC A&A that the World Bank delivered to the Government,¹ and subsequent Bank missions to St. Lucia, IMF Article IV reports, communications with the national professional accountancy, central bank, regulatory agencies, and so forth, and from the official websites of such entities. The main objectives of this report are to assess the degree to which the policy recommendations of the 2008 OECS ROSC A&A review have been implemented, identify issues that have emerged since the last review, and develop policy recommendations to further enhance the quality of financial reporting in the OECS countries, bearing in mind that this is an OECS-wide review that necessarily elides some differences within countries, particularly with respect to the activity level of the respective professional accountancy bodies (branches of the Institute of Chartered Accountants of the Eastern Caribbean).

Country Context

2. The OECS includes six small island independent countries: Antigua & Barbuda, Dominica, Grenada, St. Kitts & Nevis, St. Lucia, and St. Vincent & the Grenadines² with a total population of approximately 600,000. Gross Domestic Product (GDP) per capita ranges from about $10,500 (St. Lucia and St. Vincent & the Grenadines) to about $21,000 (Antigua & Barbuda and St. Kitts & Nevis).³ The OECS was hit hard by the 2009 global financial crisis, particularly since it was already facing the loss of preferential trade status and considerable debt overhang. High debt and limited fiscal space make it difficult for OECS governments to launch ambitious programs for employment and social support, or promote growth-enhancing investments. (Since 2010, some of the OECS countries have implemented strong fiscal consolidation programs and engaged in ambitious debt restructuring agendas.) More fundamentally, the OECS economies are intrinsically challenged by their vulnerability to external shocks, due to the predominantly import- and tourism-based structure of their economies, limited human resources, and their susceptibility to natural disasters.

3. A revised Treaty of Basseterre to establish the OECS Economic Union entered into force in January 2011. The Revised Treaty commits Member States to “undertake joint actions and pursue joint policies” on matters such as social protection mechanisms, social policies, public administration and management, statistics, education, telecommunications, international marketing of goods and services, international trade, currency and banking. All actions necessary to give full

¹ Report on the Observance of Standards and Codes Accounting and Auditing: Organisation of Eastern Caribbean States, Report No. AAA 29-60, June 21, 2008. From the perspective of the recent mission to the Institute of Chartered Accountants of the Eastern Caribbean (ICAEC), the umbrella body of OECS professional accountancy organizations (PAOs) the 2008 OECS review shows a mixed record with respect to implementation of recommendations.

² In addition, there is a seventh, full member (Montserrat) and two associate members (Anguilla and the British Virgin Islands), all of which are overseas territories of the United Kingdom. All six independent countries are members of the World Bank Group.

³ Unless otherwise stated, the currency cited in this report is the US dollar. The exchange rate between the US$ and the Eastern Caribbean $ is 1:2.70.
Effect to the free movement of people regime were completed by August 2011. OECS citizens now enjoy full free movement throughout the six independent Member States of the OECS, such that they are able to enter an OECS Member State and remain for six months in order to work, establish businesses, provide services or reside. In 2012, the OECS Assembly, headquartered in Antigua and Barbuda, was established. The primary function of the OECS Assembly is to support the legislative work of the OECS by discussing and reporting to the Authority and the OECS Council of Ministers on legislation proposed for the OECS.

4. OECS countries belong to the Eastern Caribbean Currency Union (ECCU) and share a common central bank, the Eastern Caribbean Central Bank (ECCB). While the banking sector is supervised by the ECCB, other non-banking financial institutions are regulated at the individual country level. Nonetheless, with the OECS’s greater focus on regional integration, there has been a consistent move toward a single integrated financial space within the ECCU, governed by uniform legislation.

5. The financial sector comprises 40 commercial banks (14 domestic banks and 26 branches or subsidiaries of 5 foreign banks), 67 credit unions (which serve a wide spectrum of the population, prominently including many people with limited access to commercial bank loans), and 61 insurance companies. In the recent past the ECCU domestic financial system came under serious stress as a consequence of (a) the global financial crisis; (b) the insolvency of two large and interconnected insurers based in Trinidad but operating in the ECCU; (c) weak underwriting criteria; and (d) a suboptimal regulatory framework and deficient supervision. As a result, non-performing loans (NPLs) in the banking and credit union sectors increased markedly. Credit growth was thus subdued, impeding economic recovery and the development of a dynamic private sector.

6. In 2001 a regional securities market, the Eastern Caribbean Stock Exchange (ECSE), was established, which is regulated by the Eastern Caribbean Securities Regulatory Commission. More than a decade later, it continues to lack depth (there are 25 domestic equity listings) as a consequence of the small size of the OECS economies and a historical preference for privately held investments, and it suffers from competition from the stock exchanges of Barbados, Jamaica, and Trinidad and Tobago. Its development would be fostered by an improved corporate financial reporting regime, further developments in the legal framework, the establishment of commercial courts, and investor education with respect to potential rewards/risk in equities.

Statutory Framework and Regulatory Environment

7. In the mid-1990s, OECS countries adopted new, harmonized Companies Acts, which draw a clear distinction between public companies (defined as a company any of whose issued shares or debentures are or were part of a distribution to the public) and all other business entities, with respect to governance arrangements, financial reporting, and accounting and

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4 British American Insurance Company (BAICO) and CLICO International Life (CIL) sold policies to credit unions and banks; total liabilities amounted to about 12 percent of the ECCU GDP.

5 The St. Kitts & Nevis Companies Act, which was adopted in 1996, is somewhat different from the other, virtually identical, Acts. St. Kitts & Nevis defines public company as a company the memorandum of which states, or is deemed to state, that it is a public company. Furthermore, all companies, which have more than 50 members, are deemed to be public companies.
auditing requirements. Public companies must, and any other company may, elect an audit committee, which must be composed of not less than three directors of the company. Special provisions of the Companies Acts set the general requirements for accounting and financial reporting that OECS incorporated companies must prepare. The Acts do not specify accounting standards for companies to apply while preparing their financial information; however, they set special requirements with regard to the preparation, presentation and publication of financial information produced by public companies. Typically, public companies and companies whose annual gross consolidated revenues exceed a threshold are required to file their annual audited financial information with the local Companies Registrar. All other companies are required to file with the local Companies Registrar a certificate of solvency, stating the total value of company’s assets and liabilities, signed at least by one director and when applicable by the external auditors. There is no further interpretation or guidance with regard to the general accounting and financial reporting requirements at the individual country level. Therefore, putting the legislation’s requirements into practice is entirely left to the management of the individual companies, whose actions are often limited by human and financial capacity and existing market incentives (or lack thereof).

8. Other legislative acts regulating requirements for accounting and financial reporting in a number of specialized areas include:

- Banking Act—harmonized acts regulating the banking industry, including financial reporting and information disclosure requirements, which drew in part on the 25 Core Principles for Effective Banking Supervision issued by the Base1 Committee on Banking Supervision
- Insurance Act (a draft of which has been circulated)—harmonized acts, which will regulate the insurance industry, including financial reporting and information disclosure requirements
- Co-operative Societies Act (a draft of which has been circulated), which will regulate co-operative societies and credit unions, including financial reporting and information disclosure requirements
- Securities Act.

9. More recently, in 2015, a new Banking Act came into force in response to the challenges of financial globalization, the complexities of large conglomerates, and the diversity of the products and services offered by financial institutions. The Act refined the overall regulatory regime, sharpened the risk-focused approach to supervision, and enhanced the powers of the ECCB.

10. ECCB guidelines on corporate governance require compliance with international accounting standards by financial institutions licensed under the Banking Act. Banks are required to submit to the ECCB their annual audited consolidated and stand-alone financial statements, together with additional reports and information, within four months following the

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6 The St. Kitts & Nevis Companies Act does not specifically require establishment of an Audit Committee. In all other matters dealing with the appointment of the external auditors and preparation and presentation of the audit reports it is consistent with the other OECS Companies Acts.

7 In St. Kitts & Nevis, this applies only to listed companies, banks, and insurance companies; other regulated entities (e.g., credit unions) are only required to prepare audited financial statements.

8 The Companies Act of St. Kitts & Nevis requires that companies prepare their financial accounts according to “generally accepted accounting standards,” but it does not provide any further clarification.
end of the fiscal year. Annual financial statements of local banks must be published in the
gazette and in a local newspaper; and must be exhibited in a conspicuous place in each of their
offices; however, these are typically abbreviated, not full, financial statements. Local branches of
foreign banks (which account for a significant share of the banking business) are also required to
submit to the ECCB their balance sheets and selected financial information on a monthly basis,
and their income statements on a quarterly basis. Since 2009 these local branches have also been
required to submit their own financial statements in accordance with IFRS and audited in
accordance with IAS.

11. The harmonized Securities Act, adopted in 2001, governs the placement and circulation
of securities and the exercise of professional activities on the stock market. Many parts of this
Act are based on U.S. securities regulations and comprehensively cover financial reporting
requirements for the regulated entities. The Act’s provisions are further explained in the
supporting Regulations and Rules issued by the ECSRC, which provide detailed instructions on,
among other things, the initial placement, registration and continuing disclosure requirements for
regulated entities. While the Securities Act does not explicitly prescribe accounting standards to
be used by public companies, supporting rules refer to “international accounting standards,”
(which is generally accepted to be IFRS although IFRS is not specifically named) which must be
used for the preparation of financial statements by its licensees. Among other requirements,
reporting issuers are required to submit to the ECSRC their annual report with their consolidated
audited financial statements, as well as semi-annual and quarterly reports with unaudited
financial statements.

<table>
<thead>
<tr>
<th>Box 1. Status of IFRS in OECS Countries</th>
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<tr>
<td>- By approving Securities Act 2001, the legislature or other law-making body of the OECS jurisdictions approved participation in the Eastern Caribbean Securities Regulatory Commission (ECSRC) and made its regulations binding under law. ECSRC has adopted international accounting standards for its licensees (which is generally accepted to be IFRS although IFRS is not specifically named) in its Securities (Accounting and Financial Statements) Regulations 2001 issued pursuant to the Securities Act 2001.</td>
</tr>
<tr>
<td>- IFRS are required for all domestic companies whose securities trade in a public market.</td>
</tr>
<tr>
<td>- International accounting standards are required in the separate financial statements of all licensees of the ECSRC, whether they are privately held or publicly traded. The Securities (Continuing Disclosure Obligations of Issuers) Regulations, which set the disclosure standards for firms whose securities are publicly traded, requires the use of IFRS.</td>
</tr>
<tr>
<td>- Full IFRS are required for all companies whose securities trade in a public market and for all banks, insurance companies, and other financial institutions, whether or not their securities trade in a public market. All other companies are permitted to use either full IFRS or the IFRS for SMEs in both their consolidated and separate company financial statements.</td>
</tr>
<tr>
<td>- All domestic companies whose securities trade in a public market are required to use IFRS in their consolidated financial statements.</td>
</tr>
<tr>
<td>- IFRS are required in the separate financial statements of all companies whose securities trade in a public market.</td>
</tr>
<tr>
<td>- IFRS are required for all banks, insurance companies, and other financial institutions, whether or not their securities trade in a public market. All other companies are permitted to use IFRS or the IFRS for SMEs in both their consolidated and separate company financial statements.</td>
</tr>
<tr>
<td>- Domestic: IFRS as issued by the IASB.</td>
</tr>
<tr>
<td>- The auditor’s report and/or the basis of preparation footnote do not allow for ‘dual reporting’</td>
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</table>
Box 1. Status of IFRS in OECS Countries

<table>
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<th>(conformity with both IFRS and the jurisdiction’s GAAP).</th>
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<tbody>
<tr>
<td>• SMEs may use IFRS for SME without modification; otherwise SMEs must use full IFRS.</td>
</tr>
<tr>
<td>• There is no elimination of accounting policy options permitted by IFRS or any modifications to IFRS.</td>
</tr>
</tbody>
</table>

12. Overall, the regulatory framework put in place by the joint effort of the ECSRC and ECSE is adequate and provides for the majority of needed accountability mechanisms, checks and balances. However, the effectiveness of these arrangements is constrained due to capacity limitations existing within the regulatory bodies themselves. Most OECS countries have reformed their non-banking financial institutions (NBFIs) regulatory and oversight model such that formerly fragmented departments (normally located under the auspices of each country’s MOF) that are responsible for the registration and supervision of insurance companies, cooperatives, credit unions and other non-banking financial services have been or are in the process of being merged to form a Financial Services Regulatory Authority.

13. While the existing legislation provides the ECSRC, ECSE, and ECCB sufficient authority to monitor compliance with legal and financial reporting requirements, there are a number of significant challenges which must be overcome if the regulators are to become effective enforcers of high-quality financial reporting. Some of the most notable concerns include the following:

- All three regulators face the problem of limited resources and the need to use those finite resources effectively and efficiently. The regulators must direct work to those areas where the risk is greatest. Risk (in a regulatory sense) is the combination of impact and probability, where impact is the impact that a misstatement of those financial statements would have on the confidence in the accounting and financial system and probability is the risk that those financial statements are misstated. The ECCB has already moved in this direction, by establishing a risk-assessment system and transitioning to risk-based supervision. It is essential that the ECSE and ECSRC follow in the same direction.
- The oversight work of the ECSRC is currently primarily focused on enforcing timeliness of filings, and revealing incomplete statements and inconsistencies between narrative and numerical information. There is little or no monitoring of compliance of the statements with the relevant accounting framework. The extension of the ECSRC’s role to monitor compliance with the applicable reporting framework and take appropriate measures in the case of infraction, is essential if the Securities Commission is to operate in a manner similar to accounting enforcers in the OECD countries.
- There remains a shortage of internationally recognized expertise operating in the enforcement departments of each regulator. This is partly a result of the effects of low civil service wages and high staff turnover; it also reflects a significant training need and overall capacity shortage. In particular, if the application of IFRS were to become compulsory in financial reporting of regulated entities, additional training would be needed for the supervision staff, as few have IFRS expertise at present.

14. Finally, it is important to mention the role of the Companies Registrars, which are supposed to serve as the main repositories of information (including financial information) in the
individual countries. While the existing legal system (the Companies Act) lays a very solid foundation to support this mandate, including a number of enforcement mechanisms, the Companies Registrars’ ability to serve the general public effectively is sometimes hindered by two main factors:

- The Registrar’s insufficient personnel significantly limits the follow-up activities that can be undertaken in case of non-compliance with requirements;
- The lack of awareness about (a) the legislative requirements on the part of the Companies, and (b) about the available information.

While the issue of limited capacity represents an inherent obstacle that will be difficult to overcome, the general public level of awareness about the registrars’ functions and requirements could be raised by conducting a focused public information campaign.

15. The OECS economy includes a significant number of statutory bodies, covering a variety of sectors such as transportation, utilities and financial services.9 As a rule, these entities are established by Acts of the various Parliaments. Being part of the government, the statutory bodies are required to have their financial statements audited and tabled with the Parliament. The Statutory Acts frequently do not specify the accounting standards to be applied when preparing financial reports, instead simply referring to “generally accepted accounting standards.” In response to acknowledged shortcomings, the adoption of IFRS has improved matters. However, final results vary significantly in timing and quality among the individual entities.10 Additional financial reporting challenges often arise from doing business with other Statutory Bodies (e.g., preparing accounts reconciliations when the two entities owe each other outstanding payments). With a limited supply of qualified accountants available on the market, and very limited supervision and assistance from governments that are already overburdened by other tasks, financial statements produced by the statutory bodies are often delayed or incomplete.

16. As noted, in almost all cases Small and Medium Enterprises (SMEs) operating in the OECS are only required to submit to the Companies’ Registrar their annual solvency statements, containing condensed financial information. However, for many SMEs compliance with even reduced financial reporting requirements is a significant challenge. It is thus not surprising that their financial reports are often fragmented and inconsistent. These reports are sometimes of limited value to potential users, such as banks, who as a result rely heavily on collateral to secure loans. However, the overall trend is clearly improving, not least after the Institute of Chartered Accounts of the Eastern Caribbean (ICAEC) adopted IFRS for SMEs, with further simplification for the smaller entities. The challenge now is to communicate this advance more widely to the business community at large.

17. There is no one separate, stand-alone law in the OECS countries regulating audits and the auditing profession. The Companies Acts stipulate requirements for statutory audits, which are obligatory for all public companies and sets ground rules pertaining to the selection, appointment and eligibility of the external auditors. However, the widespread adoption of IFRS and IAS, and

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9 Statutory bodies are different from government-owned companies, which fall under the jurisdiction of the Companies Act.
10 Although the Supreme Audit Institutions (SAIs) have a mandate to audit the statutory bodies, given SAI capacity constraints, such audits are normally outsourced to the private sector.
the assignment to ICAEC to regulate the profession has strengthened accounting practices in recent years.

18. The Banking Act required all banks operating in the OECS to have an annual independent audit of their financial statements conducted by a qualified auditor preapproved by the ECCB. To assist the commercial banks, the ECCB has issued Guidelines for External Auditing of Institutions Licensed under the Banking Act. These Guidelines focus on such issues as the auditors’ independence, expertise and professional education. The Guidelines also lay down the framework for the conduct of the external audit and require the audits to be performed in accordance with ISA.

19. Existing legislation is silent on contractual liabilities that may be incurred by auditors. It also does not include any requirement for auditors to have mandatory professional indemnity insurance (PII). The only exception is the Guidelines for External Auditing of Institutions Licensed under the Banking Act, which requires the financial institution to verify that the selected auditor or audit firm has adequate indemnity insurance. However, in practice, bank audits are undertaken only by the international auditing firms, all of whom internally require PII.

The Accountancy Profession

20. The Institute of Chartered Accountants of the Eastern Caribbean (ICAEC) was founded in 2001 and effectively launched in 2004; today it has a branch in each of OECS jurisdictions and approximately 200 members. Its main objectives are to:

- promote, foster and maintain the highest standards of accounting in public practice, the public service and the commercial and industrial spheres
- promote and increase the knowledge, skills and proficiency of its members and students of accountancy
- provide facilities for the study of accountancy and make provision for the examinations of persons pursuing courses in accountancy
- safeguard and enhance the professional standing, interest and reputation of its members employed in public and private practice
- regulate the ethics, etiquette, discipline, professional conduct and standards of its members and students of accountancy
- express its views to government, public authorities, other professional organizations and any other body regarding matters affecting its members and the profession

21. Broadly, accounting and auditing suffer from the same challenges as the rest of the OECS economy: limited human and financial resources. In addition, those wishing to enter the profession face difficulties in attaining internationally recognized qualifications. As a result, internationally qualified accountants remain prized and subject to fierce competition among employers. (Membership in ACCA, Chartered Professional Accountants of Canada, or AICPA is the most common path to a professional qualification.) Most of the internationally qualified accountants work in a few top-tier private companies or open their own accounting and auditing practices. The next level of the accounting profession is represented by those who are still pursuing their qualification, and thus are willing to work in lower-paid government structures or...
smaller companies. Outside of the holders of overseas qualifications, accountants who prepare financial statements in the majority of the OECS SMEs have generally received only limited training in modern, internationally recognized accounting and financial reporting techniques. As a result, bookkeeping and financial reporting in such entities are often conducted according to the tax rules, and cannot be used for any other external purposes, such as solicitation of additional investments or applications for a bank loan.

22. The ICAEC Articles of Agreement prescribe that no person shall offer him/herself in public practice or use the title of Chartered Accountant unless he/she has been registered as a member of the Institute and possesses a valid certificate issued by the ICAEC Council and regularly participated in continuing professional development (CPD) so as to renew the ICAEC practicing certificate. The ICAEC rules further specify conditions of admission to the Institute membership, including the age limit, examination, and experience requirement. A list of all members of the Institute who have been granted valid practicing certificates must be published annually in a newspaper circulated in each member state. The Institute’s work is principally conducted through its member branches, which conduct CPD seminars, advocate for the profession, and (when invited) participate in discussions with their respective governments with respect to strengthening the regulatory framework and so forth. In addition, as a member of the Institute of Chartered Accountants of the Caribbean (ICAC), the Institute participates in the practice monitoring project outsourced to ACCA.12 With greater resources, the CPD and practice monitoring efforts by ICAEC could be more robust.

23. At the end of 2013 ICAEC produced a set of By-laws and a quality control manual in line with IFAC standards,13 that this achievement took almost a decade since the Institute became operational is testimony both to the severe capacity constraints of the Institute and to the

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11 Although the profession (following the population) in the OECS is far smaller and less developed than, say, that in Jamaica or Barbados, ICAEC is represented on all ICAC committees, and currently holds the ICAC presidency.

12 The plurality of Caribbean accountants that maintain an affiliation with an international accountancy body do so with ACCA (though only a minority of these are Chartered Accountants). ACCA, through its support for CPD and practice monitoring (among other things), has contributed significantly to the profession’s development within the region. Notwithstanding this contribution, ACCA is itself a professional accountancy body—and one that has a commercial relationship with the Caribbean’s national PAOs. It is thus far from unreasonable for some stakeholders to perceive a potential for conflict of interest in its monitoring of these PAOs and to judge that a fully independent oversight body (such as Jamaica’s Public Accountancy Board) would be a preferable option in principle—even recognizing that the ACCA conducted monitoring reviews are independent of the national PAO being reviewed. (However, in the first instance ACCA cannot sanction any failings—which responsibility falls to the PAO, further limiting independence—although ACCA could introduce sanctions in the absence of PAO action if the party concerned was an ACCA member.) Moreover, such a fully independent option is clearly the emerging best practice norm worldwide—though (as could be expected) the earliest adopters tend to be clustered in the more highly developed market economies. This lack of full independence may attenuate the full benefit of the regulatory function. From the perspective of national PAOs, however, this potential issue may well be outweighed by the more practical concern with resources: with practice monitoring supervision missions averaging $22,000 there is a substantial burden imposed on national professional accountancy organizations. Thus, for example, in 2012 and 2013 the second-largest expenditure category for the Institute of Chartered Accountants of Guyana was practice monitoring. (See ICAG Annual Report 2013, report of independent auditor, page 24.)

13 The production of these was supported by a World Bank-funded project to strengthen ICAEC’s institutional capacity.
commitment and hard work of volunteers from the profession, as ICAEC lacks permanent staff and office space.

24. The OECS audit profession can be divided into two main categories: local branches of the larger global international networks of audit firms (the “Big 4” plus BDO, Grant Thornton, and PKF) and local firms. In addition to being in a privileged position in terms of hiring the best candidates, the larger firms are able to draw on their internal international network and resources for capacity development and training needs, while local firms must rely on what the local market has to offer. The structure of the OECS economy provides sufficient markets for both groups of firms. The larger firms perform considerable referral work and are active in specialized sectors, (e.g., banking), while local audit firms pick up a significant share of smaller jobs. For many of the SMEs in the OECS, the only practical solution, given the difference in fees, is to hire a local firm (or do without). Thus, it is very important to ensure that the quality of work performed by the entire audit sector is adequate and in compliance with the international auditing standards.

25. Ideally, given the small size of the regulated market, ICAEC would assume full responsibility for the regulation of the audit profession, including:

- Approving auditors’ training curricula
- Performing professional certification of auditors
- Setting audit standards and assisting in their implementation
- Maintaining a registry of audit firms and individual auditors
- Organizing quality control of audit services
- Taking measures to ensure auditors’ independence.

26. Although ICAEC has adopted ISA, this is a professional mandate, not one explicitly and directly embodied in law either at the community or individual country level. Most local firms are struggling to implement ISA (particularly in specialized sectors of the economy, such as insurance, banking and non-banking financial services), and establishment and enforcement of rigorous certification (licensing) requirements for all practicing auditors is an area requiring attention, as is the provision of more extensive and intensive continuing professional development, which is typically provided through ICAEC’s member institutes, each of which faces challenges of financial and professional staff capacity. In addition, CPD is provided through ICAC seminars and ACCA webinars.14

27. Although some of the local ICAEC branches have been trying to put in place systems to monitor the quality of auditors based on practice monitoring reviews, this effort faces the challenge (among others) of a lack of an ICAEC committee to receive and follow-up on the ACCA assessments.

28. OECS students who are interested in pursuing post-secondary education in accounting and auditing must travel overseas, because community colleges on each island offer only A-level

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14 For an example of capacity constraints, click on ‘Training Calendar’ in the ‘Training and Careers’ section of the ICAEC website; because the website is not regularly updated it grossly underestimates the actual CPD training on offer to the profession.
courses, as well as vocationally oriented crafts and technical training. While some students choose to attend universities in the United States, Canada, or the United Kingdom, the closest alternatives for post-secondary accounting and auditing education are the University of the West Indies (with campuses in Barbados, Jamaica, and Trinidad and Tobago) and the University of the Virgin Islands (with campuses in St. Thomas and St. Croix).

29. Neither ICAEC nor any of its local chapters administers accounting qualification exams, so students seeking to attend preparation courses allowing them to obtain an internationally recognized professional qualification must travel either to Trinidad (where ACCA has an office) or Jamaica or to the US, Canada, or the UK. However, individual ICAEC-affiliated professionals do provide what is, in effect, apprenticeship training that contributes to paving the way for aspiring accountants to enter the profession.

30. The main text of the report proposes a number of reforms. ICAEC will develop a selective Action Plan that prioritizes the most pressing needs reflected through the prism of existing capacity challenges facing the Government and the profession.

31. The following action plan is being discussed with the management of the Institute. With respect to national actions, clearly the PAO (even with ICAC assistance) cannot be the determinative agency, although their advocacy for these items can accelerate their progress.

### INDICATIVE ACTION PLAN

<table>
<thead>
<tr>
<th>A. Strengthen the capacity of national regulatory bodies and the professional accountancy organization to ensure compliance with financial reporting standards.</th>
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<tbody>
<tr>
<td>1. Ministry of Finance. Strengthen the capacity of the SOE units in the Ministry of Finance in the OECS countries to monitor and enforce financial reporting requirements in OECS countries.</td>
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<tr>
<td>2. Central Bank. Further strengthen the capacity of the Central Bank of Eastern Caribbean for effective review and monitoring of the financial reports and provision of feedback to financial institutions. ICAEC should closely work with the Central Bank of Eastern Caribbean for further improvement of the accountancy profession particularly the development of the accounting and auditing capacity to support the SMEs in the OECS countries.</td>
</tr>
<tr>
<td>3. ICAEC Technical Capacity. Strengthen the research and technical capacity of ICAEC. Recruit a technical resource, establish additional important committees, and become fully compliant with IFAC Statement of Membership Obligations.</td>
</tr>
<tr>
<td>4. ICAEC Physical Capacity. Establish a Center for the Institute and develop its physical facilities for providing E-library, E-classrooms, conference rooms, Video-conferencing, state of the art online CPD courses and research facilities.</td>
</tr>
<tr>
<td>5. Outreach to Educational Institutions in the OECS. Develop accountancy education in universities and tertiary institutions with a view to upgrade the curriculum in graduate programs, which should include IFRS, ISA, IESBA Code of Ethics, and IPSAS.</td>
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<tr>
<th>B. Amend the laws and regulations to further improve financial reporting requirements.</th>
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<tr>
<td>1. Define PIEs, SMEs, and micro-entities, along with related accounting and auditing thresholds. Private limited companies should not have the option of not appointing auditors. Develop a financial reporting framework for micro-entities. Auditors of any entity in the OECS countries should hold ICAEC membership.</td>
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Annex 6. The Bahamas

1. This Annex to the Caribbean Accounting and Auditing review provides an assessment of accounting, financial reporting and auditing practices in the public and private sectors in The Bahamas. The information and conclusions contained within are drawn from Bank missions to The Bahamas, IMF Article IV reports, communications with the national professional accountancy body, central bank, regulatory agencies, and so forth, and from the official websites of such entities. The main objectives of this report are identify challenges facing the accountancy profession and develop policy recommendations to further enhance the quality of financial reporting in the country.

Structure of the Economy

2. Since gaining independence in 1973, The Bahamas has registered significant advances in its economy and society, buoyed by political and financial sector stability and the recognition by successive governments of the value of inward investment. The economy of The Bahamas is largely dependent on tourism and offshore banking,\(^1\) the former of which was hit hard by the 2008-09 global financial crisis, which retarded growth. (Real GDP growth has partially recovered to about 2.5 percent, with an unemployment rate of 15 percent—roughly 6 percentage points above the ‘full employment’ norm for The Bahamas). The country is a beneficiary of the U.S.-Caribbean Basin Trade Partnership Act (CBTPA), Canada’s CARIBCAN program, and the European Union’s Lome IV Agreement. Although The Bahamas participates in the political aspects of the Caribbean Community (CARICOM), it has not entered into joint economic initiatives with other Caribbean countries, most prominently including the Caribbean Single Market and Economy (CSME). With a total gross domestic product (GDP) of about $8.2 billion,\(^2\) the country enjoys a per capita GDP of approximately $30,000, among the highest in the Caribbean. IMF projections for 2015 put GDP at $9 billion, with real GDP growth estimated at 2.1 percent and a gross public debt to GDP ratio at 61.6 percent.

Legal and Regulatory Framework

3. The Bahamas has a robust regulatory system. The registration of all companies is governed by the Companies Act, while the financial sector (banks, trust companies, and non-banking financial institutions) is regulated by the Central Bank of The Bahamas. There is a relatively intense reporting regime to the Central Bank (daily, monthly quarterly), so queries come early before an annual audit.\(^3\) Over the last decade, the Central Bank has doubled its staff, to 60; going forward it intends (resources permitting) to target more specialized staff (technical, stress testing, Basle II and II, IT). Investment funds, securities, and capital markets are regulated

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1. As of end-September 2012, the Central Bank listed about 250 active entities licensed under the Banks and Trusts Companies Regulation Act of 2000 as either banks, trusts, banks & trusts, or nominee trusts, the vast majority of which are non-resident.
2. Unless otherwise specified, the unit of currency used throughout this review is the US$.
3. Given its financial resource challenge, the Central Bank has moved to risk-based supervision. Proposed new legislation requires auditors to report shortcoming to the Central Bank. The most recent (2013) IMF Financial Sector Assessment Program (FSAP) report found no issues with the Central Bank monitoring (though it advocated enhanced autonomy, which is addressed in the proposed new legislation). Although the FSAP report noted some issues with the Securities Commission, risk-weighted securities transactions have a new, robust reporting requirement.
by the Securities Commission, whose mandate is established in Section 12 of the Securities Industry Act, 2011. In 2000, the Government embarked on an ambitious overhaul of financial sector legislation, enacting nine new laws. Together, these laws provide for more comprehensive and enhanced supervision of financial institutions, corporate service providers, and international business companies, while establishing a more coordinated system of deterrence against money laundering and other criminal abuses within the sector in the context of a framework that allows for greater international cooperation in the oversight of the financial system. Three other matters worth noting are that (a) The Bahamas is unique in the region for having a foreign exchange regime (strictly enforced); (b) beginning in January 2015 a Value-Added Tax comes into effect—the impact of this change has yet to be fully manifest; and (c) proposed new legislation to amend the Public Accountancy Act, 1991 is now under Cabinet review. Among other things, if adopted as presently drafted, the amended Act will (a) establish in law BICA’s power to regulate the profession; (b) outline practice monitoring requirement, (c) increase the hours required for continuing professional education (CPE) and better ensure its verification; and (d) formally establish licensing requirements.

4. There are fewer than a score of state-owned corporations (SOCs) in the Bahamas; all SOCs apply the accrual system of accounting and follow IFRS. They are regulated by the Ministry of Finance and the individual concerned ministries.

Financial Sector

5. The Bahamas is the most successful international financial center in the Caribbean. The country’s well-regulated financial services industry, established infrastructure, effective government, and tax neutral environment have been carefully cultivated. Following industry-wide consultation, in December 2001 the Central Bank adopted comprehensive Guidelines for the Corporate Governance of Banks and Trust Companies Licensed to Do Business within or from within The Bahamas. The Guidelines define the Central Bank’s expectations for the corporate governance of all licensees, and establish international best practices related to their management and operations.

6. In December 2003, the Government enacted amendments to the Financial Transactions Reporting Act (FRTA) and the Financial Transactions Reporting Regulations (FTRR); these amendments realigned The Bahamas’ KYC regime with the Financial Action Task Force’s

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4 See Securities Commission of The Bahamas Annual Report, 2013. Only listed companies (19) are required to produce audited financial statements.


6 Some SOCs are registered under the Companies Act and some formed by an independent Act or order of the Government of the Bahamas.

7 According to Global Shell Games, a 2012 study by Michael Findley, Daniel Nielsen, and Jason Sharman, professors at US and Australian universities, The Bahamas is among just eight countries that achieved a 100 percent Know Your Customer (KYC) compliance score, making it among the jurisdictions least likely to allow money-launderers, terror financiers, and the like to incorporate companies for nefarious purposes, with local
(FATF) Revised 40 Recommendations issued in June 2003 and provided the basis for financial institutions to implement a risk-based approach to supervision, customer due diligence, and anti-money laundering procedures.

7. In 1992, standards established by the 1988 Basel Capital Accord (Basel I) were implemented in The Bahamas, with compliance monitored by the Central Bank on a quarterly basis, as part of the review of the sector’s financial condition. In 2007, the Basel Capital Accord (Basel II)—comprising three primary pillars: Minimum Capital Adequacy, Supervision Review and Market Discipline—was implemented and was closely monitored by the Policy Unit of the Bank Supervision Department. The Basel III Implementation Road Map provides a high-level summary of the Central Bank’s further oversight plans. Implementation is being conducted in three overlapping phases. The formal program commenced in Q2 of 2013 and is expected to end Q4 of 2015, with live implementation to commence in Q1 of 2016. As a part of this process, banks will undergo several quarters of parallel reporting, initially on a best efforts basis. It is intended that banks would have to demonstrate at least two quarters of clean data to confirm their readiness to migrate fully to the revised Basel capital reporting.

Financial Reporting and Standards-Setting

8. The national standards-setter, the Bahamas Institute of Chartered Accountants (BICA), has adopted, without modification, IFRS, IFRS for SMEs (as an option for all companies that do not have public accountability), and Auditing and Assurance Standards Board (IAASB) Pronouncements. Importantly, small and medium-size enterprises (SMEs) are not defined in law, nor are public interest entities (PIEs). This means that large companies that may be public interest entities in terms of quantitative characteristics or systemic impact but do not have public accountability may choose to apply IFRS for SMEs. However, credit unions (an important component of most definitions of PIEs) are regulated.

9. As previously noted, the country’s financial reporting legislation is currently being redrafted, notably including redrafting the Public Accountants Act 1991 to make it more responsive to changes in international requirements, benchmarking with the Institute of Chartered Accountants of the Caribbean (ICAC) and International Federation of Accountants’ (IFAC) requirements so as to foster timely responsiveness to national, regional, and international requirements. The redrafted law will make the Act less prescriptive by shifting many requirements to attendant Rules and Regulations. This will reduce the risk of legal financial reporting requirements becoming static and thus lagging behind international standards and good practice.

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8. The first phase, which commenced in July 2013, primarily focused on the Pillar 1 (Capital Measurement) and Pillar 3 (Minimum Disclosure Requirements), as well as amending the definition of Minimum Regulatory Capital. The second phase of implementation started in Q1 of 2014, and primarily focused on Pillar 2 (Supervisory Review requirements). During this phase, the Central Bank issued its framework on the Internal Capital Adequacy Assessment Process (ICAAP), which banks will be required to submit. The third phase of the implementation program commenced in Q3 2014 and involves work around key Basel III elements and the release of the final reporting forms and Guidelines, encompassing both Basel II and III frameworks.

9. However, BICA’s Technical Committee has further developed a proposed definition of PIEs, which it is discussing with the Regional Monitoring Unit of ICAC and other stakeholders.
Accountancy Profession

10. The accountancy profession in The Bahamas reflects a generalized regional trend characterized by (a) small size; (b) lack of integration with regional neighbors in terms of legal frameworks, regulations, practice monitoring, and mutual recognition agreements; (c) capacity challenges with respect to funding resources, professional staffing of the Institute, physical/IT infrastructure, and technical knowledge; and (d) a disparity of up-to-date professional knowledge between those who work for local branches of international firms and those in small and medium-size practices (SMPs).

11. The Bahamas Institute of Chartered Accountants (BICA) is the regulatory body for the profession, per the Public Accountancy Act (PAA) of 1991. It has about 500 members, about half of whom are in public practice; some 90-95 percent of its members are also members of the American Institute of Certified Public Accountants (AICPA). BICA is a member of IFAC and ICAC.

12. Currently, the Institute is focused on the following key goals:
   - Redraft, repeal, and resubmit legislation (especially the PAA) to bring it up to international standards and address issues identified in the most recent IMF Financial Sector Assessment Program (FSAP) report.
   - Improve value to members
   - Improve practice monitoring
   - Re-launch the associate membership program
   - Develop a student membership program.

These goals are aimed at improving statutory and regulatory financial reporting requirements, enabling easy adoption of international standards and good practice, boosting membership numbers, and improving practice quality by BICA members (including firm management).

13. To qualify for BICA membership, applicants need to pass a qualifying examination. To be licensed to practice, applicants have to be employed for a minimum of 36 months in a senior position in a firm of public accountants, a government department, or a business approved by the Council of the Institute. The Institute also accepts into its membership without further examination or assessment, members with other, approved, qualifications: for example, AICPA, Canadian CGA, the UK-based Association of Chartered Certified Accountants (ACCA), Certified General Accountants Association of Canada (CGA), and so forth. Going forward, it would be useful to require members of such foreign professional bodies that intend to go into public practice in The Bahamas to pass conversion examinations in variant papers, such as Bahamian Tax and Company Law. This will contribute to such members providing appropriate country-specific service to their Bahamian clients.

14. The Institute has a governance regime characterized by several committees relevant to current developments in the accountancy profession. The challenge is to make this large array

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10 According to the 2013 BICA Annual report, the principal committees including Practice Monitoring; Legislative Reform; Technical; Investigations and Ethics; Disciplinary; Membership & Licensing and Public Practice and Associate Membership; CPE; SMP; and Student Membership.
of committees effective. The most recent IMF FSAP report, for example, raised issues with respect to the need for the Investigations and Disciplinary Committees to better demonstrate results.\textsuperscript{11} The Institute Secretariat is capacity challenged and cannot serve its members to the extent required by Revised IFAC SMOs (see Table 1).\textsuperscript{12} It is composed of an office manager and secretary only, with no technical resource. It currently relies heavily on Council members and part-time associates, who volunteer their time and do excellent work. This may adversely impact on consistency of decisions and work coverage. The Institute also faces challenges in terms of funding and physical infrastructure.\textsuperscript{13} It requires support in the short to medium term to address these challenges.

15. As noted, BICA is responsible for the regulation of the accountancy profession in the Bahamas. To this end, the Institute established the Practice Monitoring/Peer Review Committee, which is mandated to

1. Educate members, licensees, and the public about the importance of Practice Monitoring/Peer Review
2. In collaboration with the Continuing Professional Education (CPE) Committee, coordinate workshops and informational sessions to prepare licensees for monitoring visits
3. Identify the general trends emerging and recommend future CPE and/or other technical initiatives to assist licensees to prepare for monitoring visits
4. Establish Monitoring guidelines for the Quality Assurance Program in the Bahamas, in collaboration with ACCA and ICAC
5. Consult and advise the Legislative Reform Committee regarding any changes and/or updates as they relate to best practices and international requirements.

16. Practice Monitoring/Peer Reviews will shortly begin, through a tripartite agreement, with ICAC and ACCA. Because all the parties to the tripartite agreement are professional accountancy bodies’ active in the country, their reviews may not be considered by all stakeholders as equivalent to those conducted by an independent oversight authority with membership in the Forum for Independent Audit Regulators.\textsuperscript{14}

\textsuperscript{11} The proposed amendments to the Public Accountancy Act, 1991 will remove these two committees to a more independent Governance Council, which will broaden the scope of personnel beyond just accountants.
\textsuperscript{12} As a consequence, two years ago it was decertified by IFAC.
\textsuperscript{13} CPE, membership, and licensing fees constitute the primary sources of revenue: in 2013, these were approximately B$317,000, B$202,000, and B$50,000, respectively (the differences between the Bahamian and US dollars is extremely marginal).
\textsuperscript{14} The plurality of Caribbean accountants that maintain an affiliation with an international accountancy body do so with ACCA (though only a minority of these are Chartered Accountants). ACCA, through its support for CPD and practice monitoring (among other things), has contributed significantly to the profession’s development within the region. Notwithstanding this contribution, ACCA is itself a professional accountancy body—and one that has a \textit{commercial} relationship with the Caribbean’s national PAOs. It is thus far from unreasonable for some stakeholders to perceive a potential for conflict of interest in its monitoring of these PAOs and to judge that a \textit{fully independent} oversight body (such as Jamaica’s Public Accountancy Board) would be a preferable option in principle—even recognizing that the ACCA-conducted monitoring reviews are independent of the national PAO being reviewed. (However, in the first instance ACCA cannot sanction any failings—which responsibility falls to the PAO, further limiting independence—although ACCA could introduce sanctions in the absence of PAO action if the party concerned was an ACCA member.) Moreover, such a fully independent option is clearly the emerging best practice norm worldwide—though (as could be expected) the earliest adopters tend to be clustered
17. SMPs face challenges in operating their practices and meeting the required standards of quality at firm and engagement levels. The SMP Committee is undertaking initiatives to better assist SMPs to manage their practices and improve the quality of engagement services, where necessary emphasizing networking and “peer learning” activities. Issues of practice succession and professional indemnity insurance are being included.

18. BICA has an annual effort to disseminate information on changes to existing standards and new standards adopted. Typically in November (during its Accountancy Week), BICA holds a day-long workshop for members to cover updates on new standards and changes to existing standards. (A CPE calendar is published a year in advance for members to prepare for attendance, with information including topic and speakers, date, and CPE hours granted.) Considering the current pace and number of these changes, a day-long workshop once a year provides insufficient coverage for a constantly evolving regime.

Table 1. BICA: Assessment of Current Status of Compliance with IFAC SMOs 1-7 (Revised)

<table>
<thead>
<tr>
<th>SMO</th>
<th>Current Status and Challenges</th>
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<tbody>
<tr>
<td>SMO 1 Quality Assurance</td>
<td>Under implementation. BICA has established a Practice Monitoring Committee. However, practice monitoring implementation is delegated to ACCA, although BICA remains the responsible party. Implementation by ACCA falls short of IFAC requirements and BICA has to ensure its full responsibilities are met.</td>
</tr>
<tr>
<td>SMO 2 International Education Standards for Professional Accountants and other IAESB Guidance</td>
<td>Partially implemented. Although BICA does not administer examinations or conduct initial education programs, it remains responsible for ensuring that the quality of students entering professional training and those qualifying for the profession are high. It must use its best endeavors to influence tuition providers to achieve this. It has direct responsibility over CPE and it has a rigorous system in place to monitor and enforce CPE compliance. It must continue to ensure the number of CPE sessions and subject coverage is adequate to maintain a high quality of technical competence among members. IFAC International Education Standards must be used as the benchmark—as is the case in the proposed draft legislation of the Public Accountancy Act of 1991. As yet another example of the resource constraints facing regional PAOs, BICA’s Technical Resource Department was constituted with the intention (among other things) of responding to IAESB exposure drafts and providing training and interpretations; in the event,</td>
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in the more highly developed market economies. This lack of full independence may attenuate the full benefit of the regulatory function. From the perspective of national PAOs, however, this potential issue may well be outweighed by the more practical concern with resources: with practice monitoring supervision missions averaging $22,000 there is a substantial burden imposed on national professional accountancy organizations. Thus, for example, in 2012 and 2013 the second-largest expenditure category for the Institute of Chartered Accountants of Guyana was practice monitoring. (See ICAG Annual Report 2013, report of independent auditor, page 24.) For its part, IFAC has noted that while “[t]he establishment and effective implementation of the regional practice monitoring system is critical to the sustainable achievement of quality control assurance by practicing members … [a]nother critical … area is the requirement for adequate training of practitioners at cost effective rates on a sustainable basis” [emphasis added]. See Action Plan Developed by the Institute of Chartered Accountants of Jamaica, April 2013, page 5, at http://www.ifac.org/about-ifac/membership/compliance-program/compliance-responses.
however, BICA had to pursue this effort at the ICAC level.

**SMO 3**
International Standards, Related Practice Statements, and Other Pronouncements Issued by IAASB

*Implemented.* IAASB pronouncements have been adopted without modification. BICA must ensure the edition it adopts is always the latest edition. The proposed changes to the Public Accountancy Act, 1991 will assist in achieving this. It must also assist with implementation activities, particularly those aimed at assisting SMPs.

**SMO 4**
IESBA Code of Ethics for Professional Accountants

*Implemented.* BICA must continue to ensure that it promptly adopts the latest edition of the Code of Ethics and ensures its implementation.

**SMO 5**
International Public Sector Accounting Standards (IPSAS) and Other IPSASB Guidance

*Not yet implemented.* As the standards-setter, BICA has direct responsibility for adopting the standards and a shared responsibility with the Ministry of Finance over implementation. BICA should continue to collaborate with the Ministry of Finance and Auditor General in an effort to ensure that the Government adopts and implements IPSAS, in preference to the prevailing cash-based public sector accounting standards issued by the Ministry of Finance.

**SMO 6**
Investigation and Discipline

*Partially implemented.* The Institute has Investigation, Disciplinary, and Ethics Committees. It must ensure these are effective, at least until the first two committees are transferred through proposed amendments to the Public Accountancy Act, 1991 to a more independent Governance Council.

**SMO 7**
International Financial Reporting Standards

*Implemented.* The Institute must ensure there is compliance with the adopted standards by assisting with implementation activities, including through continued dissemination of implementation materials and facilitating and conducting workshops, seminars, train-the-trainer activities, etc.

**Accounting and Auditing Standards As Adopted and As Practiced**

19. A sample set of financial statements was selected from companies that posted their statements on their websites. The set, from regulated companies whose financial reporting is of high quality, comprised four banks, four insurance companies, four listed companies, four state-owned enterprises (financial statements of large unregulated private companies and SMEs could not be accessed). A desktop review of these financial statements was undertaken, without access to any audit working papers and company records. The review thus focused only on presentation and disclosure. The quality of compliance with auditing standards was assessed by the findings in the review of audited financial statements. The reviewed financial statements were all audited by large firms with global affiliations/memberships. Financial statements audited by local SMPs could not be found on websites.

**Summary of Findings**

(a) IAS 1: for group financial statements, both profit for the year and total comprehensive income for the year were not split between and attributable to

- Owners of the company
Non-controlling interests

(b) IAS1: failure to split other comprehensive income net of income tax between
- Items that will not be reclassified subsequently to profit and loss
- Items that may be reclassified subsequently to profit and loss

(c) inadequate disclosure of accounting policy for revenue recognition

(d) disclosure note for deferred tax was not adequate (the figure was not disaggregated into its components)

(e) IAS 1 critical judgments in applying accounting policies were not disclosed in the notes to the financial statements

(f) IAS 24 related parties was not adequately defined in the notes

(g) IFRS 7 basis of initial measurement of financial instruments was not disclosed in the financial statements

(h) IFRS 8 inadequate disclosure of segment information

(i) IFRS 13 non-disclosure of fair value hierarchy: fair values were not categorized into the different levels of fair value hierarchy.

Policy Recommendations

20. The main objective of this Accounting & Auditing review is to assist the Government’s efforts to strengthen accounting and auditing practices and enhance financial transparency in the corporate sector, so as to support the Government’s economic reform program and provide greater confidence to current and potential investors with respect to the financial reporting environment. Principle-based policy recommendations have been developed as a result of the review. They will be discussed with country stakeholders and it is intended this will lead to the development of a Country Action Plan (CAP). The CAP will identify specific activities to be undertaken to implement the policy recommendations of the Caribbean ROSC A&A under the supervision of the Government. CAP implementation will require continued commitment from the Government and other stakeholders, who can work with development partners to procure the technical and financial resources required to further strengthen the accountancy profession. The policy recommendations are as follows.

Statutory Framework

21. It is recommended that the proposed amendments Public Accountancy Act of 1991, PIEs, SMEs, and micro-entities be clearly defined, and their statutory financial reporting requirements be aligned with the level of the public interest responsibilities of the respective entities. Currently, PIEs, SMEs, and micro-entities are not defined in law. The definitions of the related accounting thresholds, while taking into account the specific situation of the Bahamas, should be broad to avoid frequent changes. The definitions must include both qualitative and quantitative parameters. Quantitative amounts should not be included in the Act; rather they should be reviewed from time to time and stipulated through regulation to avoid changing the law each time the environment changes. The definition of a PIE should include large and economically significant private companies that may not be regulated. These developments will result in a differential financial reporting framework that provides for reporting requirements commensurate with an entity’s size, public responsibilities, and other circumstances.
22. It is recommended that the financial reporting framework be revised to reflect the proposals in the paragraph above. A three-tier reporting framework for private sector entities and a two-tier framework for SOEs should be adopted as indicated in Table 2 below. Compliance with IFRS and International Standards on Auditing (ISA) should be given statutory backing in the Companies Act in addition to the current mandate through regulators.

23. It is recommended that, over time and as the Securities Commission is more fully resourced, that the Bahamas Stock Exchange require that interim financial statements of financial institutions be reviewed/audited; currently such review is not mandated notwithstanding the systemic risk to the public inherent in such institutions.

24. It is recommended that BICA should continue to collaborate with the Ministry of Finance and Auditor General in an effort to ensure that the Government adopts and implements IPSAS.

<table>
<thead>
<tr>
<th>Table 2. Proposed Reporting Frameworks</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Type</strong></td>
</tr>
<tr>
<td>---------------------------------------</td>
</tr>
<tr>
<td>Public interest entities (PIEs): listed companies, financial institutions, revenue-earning SOCs, foundations, Cooperative Societies, and non-listed large companies</td>
</tr>
<tr>
<td>Other SOCs, non-listed companies, and medium-size enterprises</td>
</tr>
<tr>
<td>Small and micro-enterprises</td>
</tr>
</tbody>
</table>

**Ensuring Compliance with Accounting and Auditing Standards**

25. It is recommended that BICA collaborate with appropriate institutions to enhance the capacity of preparers, users, regulators, and auditors so as to raise the level of compliance, enforcement, and sanction throughout the financial reporting supply chain. Compliance, enforcement, and sanctions for noncompliance should be strengthened across the board. This will require considerable training as well as review of enforcement and sanction rules across all the institutions involved.
26. It is recommended that all relevant entities improve their regulatory capacities with respect to accounting and auditing (the demands of which are evolving in tandem with new financial instruments worldwide). Each entity should encourage their staff to acquire skills and qualifications that will enable them to monitor and enforce compliance with filing, prudential, and financial reporting requirements—and going forward these skills (or the demonstrated ability to acquire them with proper training) should be a factor in new hiring for skilled regulatory staff.

27. Although in general Bahamian SOCs are in compliance with their regulatory obligations, there is a need for some enhanced monitoring so as to ‘capture’ the few outliers that are behind schedule on their reporting requirements.

Strengthening the Accountancy Profession

28. It is recommended that the technical capacity of the BICA Secretariat be strengthened. This will help BICA to be more widely recognized as a significant regional player. It will also enable the Institute to better fulfill its role for self-regulation of the profession. Some specific aspects are noted below:

   a. BICA should expand its CPE seminars and workshops and put in place a system to disseminate technical guidelines on the application of IFRS, IFRS for SMEs, International Public Sector Accounting Standards (IPSAS), ISA, and the IFAC Code of Ethics for Professional Accountants as issued by the various standard setters of these standards and codes.

   b. BICA may wish to consider developing and/or improving awareness of implementation guidelines for new standards and changes to existing standards. This will assist members, particularly small and medium-size practices and members in business, to better comply with standards and improve the quality of financial reporting.

29. It is recommended that monitored practical training requirements be harmonized and implemented when registering and licensing auditors. This is important because audit practitioners in the Bahamas qualify through different training routes. The level of practical training varies depending on the professional body; the goal should be to limit the practical training experience divergence among audit practitioners.

30. It is recommended that BICA require all future members pass examinations in local tax and corporate/business law before gaining a practicing certificate. Possibly, exemptions could be extended to persons who have graduated from a local university with a degree in accounting, or to current BICA members with, say, at least three years of experience since being certified. These local exams could be further developed to certify tax practitioners.

31. It is recommended that BICA work in collaboration with the Government to further develop accounting education in the College of the Bahamas and tertiary educational institutions.
with a view to upgrading the curriculum in graduate programs, which should include IFRS, ISA, IPSAS, and the International Accounting Standards Board (IAESB) Code of Ethics.

32.  *It is recommended that BICA collaborate with other stakeholders in the country to fulfill IFAC Statements of Membership Obligations.* Implementing the various recommendations discussed above would help BICA more fully comply with IFAC SMOs.

33.  *It is recommended that a Country Action Plan drawing on the recommendations of this report be prepared.* The Indicative Action Plan below prioritizes the most pressing needs reflected through the prism of existing capacity challenges facing the Government and the profession. With respect to national actions, clearly the PAO (even with ICAC assistance) cannot be the determinative agency, although their advocacy for these items can accelerate their progress.

**Indicative Action Plan: Key Recommendations**

<table>
<thead>
<tr>
<th>A. Short-Term Reforms (1 to 2 years)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Define public interest entities (PIEs) and small and medium-size enterprises (SMEs). Clearly define PIEs and SMEs and establish an appropriate differential financial reporting framework in line with size, stakeholders’ interest, and (especially) potential for adverse systemic impact or wide-ranging adverse impact on the populace, etc.</td>
</tr>
<tr>
<td>2. Strengthen BICA technical capacity. Strengthen the capacity of BICA in the area of technical support for international financial reporting and auditing standards to assist its members.</td>
</tr>
<tr>
<td>3. BICA’s financial and infrastructure capacity. Develop a more robust revenue-generating potential and establish a BICA Center to develop its physical facilities for providing library, classrooms, conference rooms, and research facilities.</td>
</tr>
<tr>
<td>4. Strengthen monitoring and disciplining of SOCs that are tardy in meeting their reporting requirements.</td>
</tr>
<tr>
<td>5. Strengthen regulatory capacity. Strengthen the capacity of all regulators with respect to accounting and auditing. These institutions should enhance their capacity to monitor and enforce compliance with the financial reporting requirements of the entities for which they are responsible.</td>
</tr>
<tr>
<td>6. Ensure IPSAS adoption and implementation.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>B. Medium- and Long-Term Reforms (3 to 6 years)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Establish a central repository of audit reports. An appropriate entity may wish to consider establishing a repository of all audited financial statements for private unregulated companies and the requirement for submitting such accounts should be included in the proposed amendments to the Public Accountancy Act.</td>
</tr>
<tr>
<td>2. Review/audit interim financial reports of listed companies. Consider the value of reviewing/auditing the interim financial reports of all listed companies by their auditors before these are made available to the print and electronic media.</td>
</tr>
</tbody>
</table>
Annex 7. Belize

1. This Annex to the Caribbean Accounting and Auditing review provides an assessment of the accounting, financial reporting, and auditing practices in the public and private sectors in Belize. The information and conclusions contained within are drawn from Bank missions to Belize, IMF Article IV reports, communications with the national professional accountancy body, central bank, regulatory agencies, and so forth, and from the official websites of such entities. The report’s main objectives are to identify challenges facing the accountancy profession and develop policy recommendations to further enhance the quality of financial reporting in the country.

Country Context

2. Belize has a large land mass (23,000 sq km) and an extremely small population (341,000) and domestic market (which is constrained by high labor and energy costs and poor infrastructure), and it is highly susceptible to climatic impacts that introduce economic volatility.1 Its economy is characterized by small private enterprises, dominated by agriculture, tourism, services, and petroleum. 2013 GDP was $1.6 billion; with real GDP growth of 0.7 percent, a dramatic drop from 4 percent in 2012, mainly due to continued declines in oil production and weak agricultural output.2 The estimated 2012 per capita GDP PPP was $8,400,3 but this average hides considerable poverty. (A 2009 country poverty assessment found that household poverty had increased substantially since the 2002 assessment, from 25 percent to 33 percent, with the share of those living in severe poverty rising from 8 to 10 percent. Poverty increased mainly because of stagnating economic growth.) Unemployment stood at 14.2 percent in September 2013 and is continuing an upward trend since 2008. Total public debt was 76.4 percent of GDP at end-2013, of which 85 percent was external debt and 15 percent domestic debt. Public external debt amounted to 66 percent of GDP at end-2013.

3. Belize is a parliamentary democracy and member of the “British” Commonwealth. Prime Minister Barrow of the ruling United Democratic Party won re-election for a five-year term in March 2012. Since first taking office in 2008, the government has nationalized Belize’s leading commercial entities (private telecommunications and electricity companies, owned by U.K. and Canadian investors) and the water company. As noted below, the financial resolution of these actions awaits court rulings, which introduces uncertainty in economic and financial planning. Government spending, notably on public sector wages, is rising in the context of forthcoming municipal elections (March 2015). The government created a new public bank in September 2013 that would essentially provide loans to public employees and teachers on concessional terms and is expanding the national health insurance scheme. In its recent budget address, the government announced sizeable wage increases for public employees and committed to

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1 Thus the focus of the World Bank’s four-year Country Partnership Strategy (CPS) for FY12–15 is on assisting Belize to achieve inclusive and sustainable natural resource-based growth and enhanced climate resilience. The overall size of the envelope during the new CPS period is $20–28 million. Under the CPS, an investment lending operation is planned to support the improvement and/or development of climate resilient infrastructure.
2 The Statistical Institute of Belize reported that GDP growth contracted 1.67 percent in the first quarter of 2014 compared to the previous quarter.
3 Unless otherwise specified, the currency used throughout this report is the US dollar. The Belize dollar is pegged to the US$ at 2:1.

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allocating half of the annual growth in actual recurrent revenue collection to increases in public sector wages during FY14/15–16/17.\(^4\)

4. The public sector employs approximately 12 percent of the formal sector workforce, with the central government headcount at 15,600. According to the Statistical Institute of Belize, in 2012 central government public expenditures, exclusive of the parastatal and state-owned enterprises sector, which plays a significant role in terms of employment and service provision,\(^5\) represented 10.3 percent of GDP; of this figure, the central government wage bill composed 33 percent.

5. Belize has 23 parastatals (government entities, often established by an Act of Parliament) and 5 SOEs (private limited companies registered under the Companies Act)\(^6\)—15 of which receive transfers from the central government (along with 9 city or town councils that receive central government funding, only 2 of which have submitted audited financial statements in the last four years). The aggregate transfers represent 1.5 percent of GDP and 5 percent of total government revenue; however, SOE fee and other transfers to the central government represent 1.5 percent of GDP and 6 percent of total government revenue.\(^7\) Some SOEs have large debt accumulations.

6. SOEs are overseen by units in different sector ministries at the policy level, but they are not responsible for reporting to sector line ministries with respect to operational performance and none are required to present a fiscal risk assessment. The Ministry of Finance carries the whole burden of ownership of all SOEs, providing guarantees for accessing to finance, when needed. SOE budgets are approved by the respective Board. However, if they need additional financing from the Government budget or funding from external agencies that requires guarantees from the Government, they require Ministry of Finance approval. Unlike with SOEs, the Ministry of Finance is responsible for approving the annual budget of all parastatals.

7. As the majority shareholder in parastatals and SOEs, the Ministry of Finance, through the minister, appoints the members of their Boards, which are responsible for management of entities, including appointing the Chief Executive and the senior management of the organization and, occasionally, the Executive Committee that manages the entity on a day-to-day basis. In

\(^4\) The increase is in addition to the automatic annual salary adjustments of about 2.5 percent that have been taking place for years. The first tranche took effect in April 2014, bringing the overall salary increase to about 7.5 percent in FY2014/15. In turn, the salary increases will trigger automatic increases in pensions, and transfers.

\(^5\) Notwithstanding the importance of these entities to the economy, there is no centralized information source on the size of the sector in terms of output, turnover, or links with the budget (i.e., funds received from Government in terms of direct and indirect subsidies and other transfers, including implicit subsidies such as unpaid taxes, dividends, rents, and government guarantees on borrowing). Annual or other reports (including audit reports and management letters) for most entities, as well as information on their performance in terms of their main functions, quality, and extent of service delivery are not readily available for all entities. Some entities that are on-budget do not feel responsible for reporting to Ministry of Finance, and those that report do not do so consistently. There is no standardized institutional framework or governance procedure dealing with operations and oversight of these entities.

\(^6\) Of the 24, 18 are in the service sector (e.g., water, electricity), 3 in financial services, 2 in transport and communications, and 1 in energy.

\(^7\) Within these aggregates, the consolidated balance of the three largest SOEs (electricity, water, telecommunications) show significant volatility, underlying the SOEs’ risk to the public sector fiscal balance. Overall revenues have been stagnant, while expenditures have increased.
many cases, Board members are political appointees, who may lack technical expertise in the sector or managerial experience at a senior level. The Board appoints the members of the Audit Committee. All SOEs have an Internal Audit Unit, which reports directly to the Audit Committee of the Board. Audits of SOEs are conducted by the private sector audit firm appointed by the Board; audits of parastatals are to be conducted by the Office of the Auditor General, but in practice this requirement is observed in the breach. 8

8. As the majority shareholder in parastatals and SOEs, the Ministry of Finance requires submission of the audit reports of all SOEs and parastatals; in practice, a large percentage of the audit reports are either not submitted at all or are not submitted in a timely manner. 9 (The World Bank reviewed the performance of five SOEs from the perspective of the OECD Guidelines on Transparency and Disclosure of State-Owned Enterprises; the results are reflected in the Table 1.) 10 Moreover, the Ministry of Finance does not have a dedicated unit for reviewing audit or performance reports. Thus, in Belize there is no functioning arrangement for internal audit of public expenditures. The status of external audit is summarized in Table 2.

| Table 1. OECD Guidelines on Transparency and Disclosures of SOEs and Its Practices in Belize |
|-----------------------------------------------|-----------------------------------------------|
| State-owned enterprises should observe high standards of transparency in accordance with the OECD Principles of Corporate Governance. | Broadly, the five SOEs follow the OECD principles. However, an overall gap remains in terms periodical reporting to the Ministry of Finance, which is the majority shareholder and also submitting their reports to the Public Accounts Committee of the Parliament. |
| a. The coordinating or ownership entity should develop consistent and aggregate reporting on state-owned enterprises and publish annually an aggregate report on SOEs. | The Ministry of Finance has very limited capacity and does not have any SOE or parastatal section to do this. |
| b. SOEs should develop efficient internal audit procedures and establish an internal audit function that is monitored by and reports directly to the Board and to the Audit Committee or the equivalent company organ. | All the five SOEs reviewed have adequate internal control procedures and internal audit arrangement. The Internal Auditors are directly responsible to the Audit Committee of the Board. However, it is not clear how effective is the internal audit function and the Audit Committees. |
| c. SOEs, especially large ones, should be subject to an annual independent external audit based on international standards. The | All SOEs are subject to independent external audit. The audits are conducted by qualified auditors who are the members of the Institute of Chartered |

8 In accordance with Article 120 (b) of the Belize Constitution, at least once each year an audit of the public accounts of Belize (the accounts of all officers and authorities of the Government) is to be submitted by the Office of the Auditor General to the Clerk of the National Assembly.

9 Of the 28 bodies, there is no record of any submissions since 2008 of 14 entities; of the remaining 14 entities, only 5 submitted audits in 2013.

10 These SOEs are audited annually by independent auditors, and the findings are reviewed by the respective Audit Committee and Board and are incorporated in the annual reports of the SOEs. Ideally, the reports should be submitted to the Ministry of Finance, which should review the reports on a regular basis and provide feedback to the concerned entities. In addition, the Ministry of Finance should also review the performance of the entities, which would foster a culture of performance. When appointing the Members of the Board, the ministry provides some authority/responsibility to the person appointed. This appointment should be matched by a framework of performance accountability, which should supported by an umbrella legal framework.
OECD Guidelines on Transparency and Disclosure of State-Owned Enterprises

<table>
<thead>
<tr>
<th>d.</th>
<th>SOEs should be subject to the same high-quality accounting and auditing standards as listed companies. Large or listed SOEs should disclose financial and non-financial information according to high-quality internationally recognized standards.</th>
<th>The SOEs are using the International Financial Reporting Standards (IFRS) to prepare their accounts. However, the qualitative aspects of the accounts were not reviewed. Audit reports are available on the respective company websites. Each company has its own strategy and business plan approved by the Board.</th>
</tr>
</thead>
<tbody>
<tr>
<td>e.</td>
<td>SOEs should disclose material information on all matters described in the OECD Principles of Corporate Governance and in addition focus on areas of significant concern for the state as an owner and the general public.</td>
<td>Audit reports of parastatals and SOEs are not submitted to the Ministry of Finance and the Parliament in a timely manner. This is a significant gap in corporate accountability and governance.</td>
</tr>
</tbody>
</table>

9. In short, in Belize the system of checks and balances on reviewing the performance of parastatals and SOEs, on which sound democratic governance depends, is inadequate. The chain of accountability from the public through the legislature to the executive appears to have broken down. Parliamentary Committees in general and the Public Accounts Committee (PAC) in particular, are not functional.

10. The private sector is characterized by many small and medium-size enterprises (SMEs) producing goods and services, mainly for domestic trading. It is estimated that there are about 280 active private enterprises although a far larger number are formally registered with the Belize Chamber of Commerce. Limited access to financial resources is cited as one of the main impediments to private sector growth. One factor impeding access to credit is that financial information about the firms seeking credit is often insufficient or unavailable, which means that potential lenders are unable to assess these firms’ repayment capacity.

11. There is limited foreign investment and few foreign companies operating in Belize. Foreign direct investment was only $193 million in 2012. Foreign investment is concentrated in the agricultural and natural resources sector.

12. Belize’s financial system is small. Five commercial banks operate domestically, of which three are local subsidiaries of international banks. The largest domestic commercial bank holds over $465 million in total assets. There are seven international banks that offer banking services in foreign currencies exclusively to non-residents. Fourteen credit unions operate as non-profit cooperatives that function as savings banks, offering consumer, education, and residential loans to their shareholders. The largest credit union has approximately 42,500 members, with total assets estimated at $160 million. The IMF noted a substantial level of non-performing loans in its 2014 Article IV consultation.
13. Belize does not have a domestic stock market and lacks the regulatory legal framework for the development of one in the near future.

14. **Belize’s management of its economy faces several institutional and contingent challenges.** Among the challenges identified in a 2013 Public Expenditure and Financial Accountability (PEFA) Assessment were (a) the lack of transparency in the system of fiscal transfers to municipal governments; (b) the fiscal risks posed by state-owned enterprises and municipal governments; (c) weaknesses in procurement, including the legal framework, the lack of justification for use of limited competition, insufficient transparency, and ineffective appeals process; (d) shortcomings in preparing annual financial statements, which lead to their insufficient comprehensiveness and accuracy, as well as delays in submitting the statements to the Auditor General. A 2014 IMF Article IV consultation identified the following contingent risks to its baseline assessment: (a) lower-than-projected primary balances; (b) a court decision that leads to a larger than expected (by the government) compensation to the former owners of the nationalized companies; (c) banking sector vulnerabilities; (d) fiscal risks from state-owned entities; (e) the cost of the new public bank; and (f) the cost of new policy initiatives such as the expansion of the national health insurance scheme.

**Statutory and Regulatory Frameworks**

15. The accounting, auditing, and financial reporting requirements are governed by various corporate laws and the Institute of Chartered Accountants of Belize (ICAB). The Acts do not contain detailed accounting, auditing, and financial reporting requirements, but rather refer to standards adopted by ICAB. (Table 2 outlines the current major Financial Reporting, Publication, and Filing Requirements in Belize.) The Office of the Auditor General is mandated by the Constitution to audit ministries, departments, and statutory bodies and must submit every report to the Minister of Finance, a task made more difficult if (as is the case in fully half of the statutory bodies) the statutory bodies do not submit audit reports. The Supreme Audit Institution of Belize is an independent office, but it struggles to overcome financial and technical constraints and is less than fully effective as an auditor.

16. The Companies Act 1995 Chapter 250 stipulates all provisions related to accounting and auditing in Belize. It requires that all limited companies present audited financial statements to their shareholders. According to the Act, all public companies shall, and any other company may, have an Audit Committee. The Act does not specify the accounting and auditing standards to be applied. Moreover, the requirements of the Act are not properly enforced as many companies are not consistently filing their annual returns; consequently, financial statements for some companies are not available to the public.

17. Auditing for public sector entities is governed by the Finance and Audit Reform Act, 2005. The Act does not prescribe the reporting and auditing standards to be used. To ensure proportionate reporting requirements, ICAB must adopt and assist in the successful implementation of the IFRS for SMEs and the Guide to this standard for use by micro-entities that apply IFRS for SMEs.
18. Table 2 summarizes the main financial reporting, publication, and filing requirements in Belize.

<table>
<thead>
<tr>
<th>Law/Regulation</th>
<th>Regulator(s)</th>
<th>Accounting Standards</th>
<th>Audit Requirements and Standards</th>
<th>Publication/Filing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Listed Companies (No stock exchange in Belize)</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>Private Companies &amp; SMEs</td>
<td>Companies Act</td>
<td>Registrar of Companies</td>
<td>IFRS or IFRS for SMEs</td>
<td>ISA • Shareholders of private companies may elect not to have auditors</td>
</tr>
<tr>
<td>SOEs</td>
<td>Companies Act</td>
<td>Registrar of Companies</td>
<td>IFRS</td>
<td>By approved ICAB member • ISA</td>
</tr>
<tr>
<td>Banking Institutions &amp; Credit Unions</td>
<td>Companies Act • Domestic Banks and Financial Institutions Act • International Banking Act • Credit Union Act</td>
<td>Central Bank of Belize</td>
<td>IFRS</td>
<td>By approved ICAB member • Audit partner rotation after seven years • ISA</td>
</tr>
<tr>
<td>Non-Banking Financial Institutions</td>
<td>Companies Act •</td>
<td>Registrar of Companies</td>
<td>IFRS</td>
<td>By approved ICAB member • ISA</td>
</tr>
<tr>
<td>Insurance Companies</td>
<td>Companies Act • Insurance Act</td>
<td>Supervisor of Insurance</td>
<td>IFRS</td>
<td>By approved ICAB member • ISA</td>
</tr>
<tr>
<td>Cooperative Societies</td>
<td>Cooperative Societies Act</td>
<td>Commissioner of Cooperative Societies</td>
<td>Not specified</td>
<td>Auditor appointed by Society; approved by Supervisor of Insurance</td>
</tr>
<tr>
<td>Micro-Entities (if not covered by Companies)</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>Not required</td>
</tr>
</tbody>
</table>
19. The Central Bank of Belize is the regulatory authority for the banking industry (local and international branches) and requires the annual financial statements of banks to comply with the International Financial Reporting Standards (IFRS) and be audited in accordance with the International Standards on Auditing (ISA). The Central Bank of Belize is able to impose corrective measures to strengthen a weak bank or safeguard the financial system. Offshore banks are regulated by the International Banking Act and its circulars, while domestic banks are regulated by the Domestic Banks and Financial Institutions Act. The Acts stipulate licensing and prudential and external audit requirements. However, most of the population invests in credit unions, which are regulated by the Credit Union Act, which stipulates supervisory standards and requirements for the presentation of financial statements. The Central Bank of Belize is in the process of revising the regulations to require credit unions to report under IFRS. The Bank and Financial Institutions Act 2000 requires banks to be audited by an auditor who is a member of ICAB and licensed by ICAB, but it does not prescribe the standards to be used in preparing and auditing financial statements.

20. The international financial services sector (IFS) is regulated by the International Financial Services Commission (IFSC), which requires that IFS service providers, including companies and sole practitioners, are duly licensed by the IFSC and that they follow their rules and regulation in the conduct of IFS business. No audits are required by the IFSC.

21. Local and international insurance companies are regulated by the Supervisor of Insurance, which requires that they (a) are duly licensed in accordance with the provisions of the Insurance Acts of Belize, and (b) submit annual audited accounts that are produced by an ICAB member.

22. All utilities in Belize are regulated by the Public Utilities Commission (PUC), which requires that they (a) are duly licensed by PUC, and (b) submit annual audited accounts produced by an ICAB member.

23. Public interest entities and micro, small, and medium-sized entities are not defined in law, and the necessary differential reporting frameworks are either lacking or applied in a haphazard fashion.

Compliance with Standards

24. Compliance with IFRS is higher for larger entities and those that report to regulators. SMEs, entities that do not have reporting responsibilities to regulators, and some SOEs tend to have lower compliance with financial reporting standards. ISA are not complied with consistently throughout the profession and enforcement is non-existent in this regard. SMPs and firms with no international affiliation tend to have a lower compliance rate. This may be a result
of limited technical skills and weak statutory requirements and an under-regulated audit profession.

25. A sample set of financial statements was selected from companies that posted their statements on their websites, and reviewed—showing systemic shortcomings. The set, from regulated companies whose financial reporting is of high quality, comprised four banks, four insurance companies, four state-owned enterprises (financial statements of large unregulated private companies and SMEs could not be accessed). A desktop review of these financial statements was undertaken, without access to any audit working papers and company records. The review thus focused only on presentation and disclosure. The quality of compliance with auditing standards was assessed by the findings in the review of audited financial statements. The reviewed financial statements were all audited by large firms with global affiliations/memberships. Financial statements audited by local SMPs could not be found on websites.

Summary of Findings:

- There were many cases of inadequate disclosures of accounting policies relevant for the financial statements. Conversely, there were also elaborate accounting policy disclosures for items that were not applicable for the financial statements.
- A number of financial statements did not disclose most of the information required by IAS 19, “Employee Benefits.”
- There were cases where there was no description in the notes of what constitutes turnover and the basis of its recognition.
- One set of financial statements disclosed very material balances in the Statement of Financial Position that were not accompanied by notes to give more information about their nature, recognition, and measurement policies.
- A set of financial statements had inconsistent disclosure patterns. Very material figures that require detailed explanatory accounting policy notes on recognition, measurement, and disclosure, and notes supporting them, did not have such supporting information, making it difficult to fully appreciate the financial statements.
- Fair value measurement hierarchy was not disclosed in most financial statements that should have disclosed that information, affecting the ability to assess fair value measurement processes.
- One set of PE financial statements was not signed by the directors.
- The minimum disclosures required for finance leases were not made in one set of financial statements.

The Accountancy Profession

26. The Institute of Chartered Accountants of Belize (ICAB) is the main active professional accountancy body in the country. As of November 30, 2014, ICAB had some 54 members, of whom 23 are in public practice, 29 are non-public accountants, 5 are resident overseas, and 2 are retired. These numbers are clearly too few to achieve the objectives set out in the legislation that established the Institute (see following paragraph). More broadly, in total there are about 100 professional accountants (including ICAB members) who are associated with 10 registered local
accounting firms of Chartered Accountants (five local SMPs and five members of global networks). Of the Big 4 firms, only one firm is present in Belize.

27. ICAB was established by the Accountancy Profession Act 1984. It principal objectives are to (a) regulate the ethics, discipline, professional conduct, and standards of its members and students; (b) promote and increase the knowledge, skill, and proficiency of its members and students; (c) promote and protect the welfare and interest of the Institute and the accountancy profession in Belize; (d) make provision for the training, education, and examination of persons engaging in or intending to engage in the said profession; (e) advise and assist the Government of Belize, statutory bodies, educational or charitable institutions, trade unions, business and other professional organizations upon any question within the province of the profession; and (f) promote and foster relations with other professional bodies in Belize and elsewhere for the purpose of better achieving the objects of the Institute, and to subscribe to and join or associate with regional and other national professional organizations whose objects are not inconsistent with those of the Institute.

28. The Institute is governed by a Council of seven members who are elected by members at the annual general meeting. The activities of the Institute are carried out by a Secretariat and six sub-committees: Tax and Legislative, Continuing Professional Education and Members Services, Publicity, Investigations, Disciplinary, and Appeals). ICAB is a member of the Institute of Chartered Accountants of the Caribbean (ICAC). The ICAB secretariat is severely resource constrained (it consists of a part-time administrative assistant).

29. ICAB is responsible for regulating the accountancy profession in Belize. ICAB was established by Accountancy Profession Act 1984 as a self-regulatory body for the accountancy profession. The Act also gives ICAB the authority to approve auditing and accounting standards in Belize. ICAB is the sole organization in Belize with the right to award the Chartered Accountant (CA) designation. Without an ICAB practicing certificate, no one may practice as a public accountant. ICAB membership is open to any qualified person who is a resident or former resident of Belize or who is a member of Scheduled Societies (essentially the more widely recognized international professional accountancy bodies) and possesses qualifications accepted by the Council. ICAB is a member of the Institute of Chartered Accountants of the Caribbean (ICAC). ICAB, as the approved standard setter, has adopted IFRS, IFRS for SMEs (small and medium-size enterprises), ISA and the Code of Ethics of the International Ethics Standards Board for Accountants (IESBA) as its approved accounting and auditing framework for Belize. However, the Institute allows the use of other internationally accepted standards (particularly US GAAP or Canadian GAAP). More pertinently, neither the Accountancy Act nor ICAB capacity provide the effective ability for adequate regulatory, monitoring, and enforcement mechanisms for companies to comply with international accounting and auditing standards. This has resulted in a large number of unregistered, uncertified, and unregulated individuals providing accounting and bookkeeping services. The Institute has started updating its bye-laws with an intention of updating the Accountancy Profession Act to enhance its power and authority to oversee and regulate the profession effectively.

30. ICAB is the sole regulatory authority for accountants and auditors in Belize.
• Although it statutorily controls audit practice of its members, and sets standards for the performance of the accountancy profession, it effectively has no control over accountants and auditors who are not ICAB members. Moreover, because ICAB membership may be obtained through various qualification routes, the skills level of its members is uneven.
• Professional accountants in business (outside professional audit practice) are not mandated to be ICAB members.
• ICAB requires that its members comply with the ICAC’s Continuing Professional Development (CPD) requirements and other professional regulations.

31. Membership in ICAB is acquired through a combination of examinations and two years’ work experience.

• The primary route for ICAB membership is through a joint ICAB and the UK-based Association of Chartered Certified Accountants (ACCA) scheme that gives successful candidates the right to membership of both organizations. There is a joint student arrangement between ACCA and ICAB.
• Other routes to membership include a joint Association of Accounting Technicians (AAT, UK)/ICAB scheme and the acquisition of an approved university degree.
• Membership of ICAB can also be obtained by members of other approved professional bodies, in particular members of some accountancy bodies in Canada, the United Kingdom, and the USA. Members in good standing of other institutes are admitted to membership without the requirement to write any examinations, not even in the Belize business and tax law.

Since ICAB membership can be attained through various qualification routes, the education and practical training of the members can be uneven.¹¹ The ICAB council will determine in most instances whether the education and practical training requirements are appropriate and will demand further qualifications as it deems necessary. Local requirements are usually fulfilled during the two-year term working in industry or an audit firm prior to obtaining practicing membership.

32. Members of ICAB and international professional accountancy bodies are subject to oversight and/or regulation by their respective professional bodies. The members from the respective bodies can be subject to investigation and discipline by ICAB (if they are a member of such) and/or ACCA (if they are a member) or their professional body, as appropriate. This results in differential regulation and the potential for regulatory arbitrage.¹²

33. Some accounting and audit reports are prepared by persons who are not practicing members of ICAB. These are accepted by banks, the Belize Companies Registry, the tax authorities, and other users of financial statements. The law does not always require audits to be

¹¹ One unfortunate common feature is that none of the professional accountancy bodies, including ACCA, that provide training leading to ICAB membership offers training and examination in Belize taxation, corporate, or business laws. ICAB members are therefore licensed to practice without being tested and passing these important local variant papers.

¹² To date, there is little evidence that this potential has been manifest in practice.
conducted in accordance with ISA (however laws or regulations may require that audits be conducted by practicing members of ICAB, which itself requires its members to use ISA). There are also cases in which auditors of a given entity also prepare the financial reports for that entity.

34. ICAB has reached agreement to participate in the joint ICAC-ACCA practice monitoring review scheme, but it has yet to actually undertake this review. ICAB has signed on to second cycle of the Regional Practicing Monitoring, which will come into effect in 2016.13

35. ICAB is a full member of ICAC, which is a member of IFAC. Its status with regards to IFAC Statement of Membership Obligations (SMOs) needs further improvement, as noted below.

- **SMO 1 - “Quality Assurance.”** As an IFAC member body, ICAB has an obligation to encourage and support its members, by disseminating quality control guidelines requiring firms to implement a system of quality control in accordance with International Standards on Quality Control (ISQC) 1: “Quality Controls for Firms that Perform Audits and Reviews of Financial Statements and Other Assurance and Related Services Engagements” and ISA 220: “Quality Control for an Audit of Financial Statements.” This task is currently not being implemented because of capacity constraints. The audit quality reviews contracted to ACCA have yet to be undertaken.

- **SMO 2 - “International Education Standards for Professional Accountants and Other EDCOM Guidance.”** ICAB does not conduct its own examinations and is not collaborating with tertiary institutions to ensure that accountancy education at these institutions produces graduates that meet the minimum standards of International Education Standards (IES) 2: “Entry Requirements to a Program of Professional Accounting Education.” Monitored practical training requirements as part of training for membership of ICATT are not being reviewed by ICAB to ensure they are aligned with IES issued by IFAC or with its own requirements. ICAB should ensure that Continuing Professional Development (CPD) topics cover new standards and changes to existing standards and that in all cases they meet the minimum requirements of IES

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13 The plurality of Caribbean accountants that maintain an affiliation with an international accountancy body do so with ACCA (though only a minority of these are Chartered Accountants). ACCA, through its support for CPD and practice monitoring (among other things), has contributed significantly to the profession’s development within the region. Notwithstanding this contribution, ACCA is itself a professional accountancy body—and one that has a commercial relationship with the Caribbean’s national PAOs. It is thus far from unreasonable for some stakeholders to perceive a potential for conflict of interest in its monitoring of these PAOs and to judge that a fully independent oversight body (such as Jamaica’s Public Accountancy Board) would be a preferable option in principle—even recognizing that the ACCA-conducted monitoring reviews are independent of the national PAO being reviewed. (However, in the first instance ACCA cannot sanction any failings—which responsibility falls to the PAO, further limiting independence—although ACCA could introduce sanctions in the absence of PAO action if the party concerned was an ACCA member.) Moreover, such a fully independent option is clearly the emerging best practice norm worldwide—though (as could be expected) the earliest adopters tend to be clustered in the more highly developed market economies. This lack of full independence may attenuate the full benefit of the regulatory function. From the perspective of national PAOs, however, this potential issue may well be outweighed by the more practical concern with resources: with practice monitoring supervision missions averaging $22,000 there is a substantial burden imposed on national professional accountancy organizations. Thus, for example, in 2012 and 2013 the second-largest expenditure category for the Institute of Chartered Accountants of Guyana was practice monitoring. (See ICAG Annual Report 2013, report of independent auditor, page 24.)
7: “Continuing Professional Development: A Program of Lifelong Learning and Continuing Development of Professional Competence.” In the medium to long term, ICATT should consider establishing its own high-quality education and examination system that has international recognition. ICAB, with its current limited financial, physical, and technical capacity and the absence of a local or regional qualification, is not in a position to comply with the requirements of SMO 2. However, professional examinations have been outsourced to international accountancy bodies such as ACCA.

- SMO 3 - “International Standards, Related Practice Statements and Other Papers Issued by the IAASB.” Although International Standards on Auditing are adopted, ICAB has no process that provides for timely, accurate, and complete dissemination of these standards and related pronouncements to members. This would be particularly useful to small and medium-size practices (SMPs). ICAB should assist its members with the implementation of ISA. This is also relevant for implementing the IESBA Code of Ethics and IFRS. These activities could include updating pre- and post-qualification to ensure that courses on the latest international standards have been incorporated, offering other trainings, organizing seminars, and so forth.

- SMO 4 - “IFAC Code of Ethics for Professional Accountants.” ICAB is required to enforce the IESBA Code, which it adopted. However, ICAB issues no compliance guidelines for members, which would be especially useful for SMPs.

- SMO 5 - “International Public Sector Accounting Standards and Other PSC Guidance.” ICAB has no capacity or mechanism to disseminate the International Public Sector Accounting Standards (IPSAS) and related guidance. To be relevant to the public sector, and thus fulfill its national obligations, ICAB needs to play a leading role to foster public sector accounting capacity and assist government institutions in its implementation. Although the Ministry of Finance is serious about implementing IPSAS, currently there are no legal requirements for their application.

- SMO 6 - “Investigation and Discipline.” The integrity of the accounting and auditing profession is built upon the collective reputation of its practitioners. This makes the quality of membership important, and preserving that quality is a major challenge facing the profession faces. A professional body should have mechanisms to investigate and discipline its members. ICAB’s capacities to monitor, investigate, and discipline members’ needs improvement, as does the collaboration between committees in charge of these activities and the Licensing Committee.

- SMO 7 - “International Financial Reporting Standards.” Although IFRS have been adopted, there are no processes that provide for disseminating implementation guidelines to members to ensure correct application in practice.

36. In sum, the main challenges facing the profession include the inability of ICAB to operate a full-time office and secretariat (all work is performed by a part-time secretariat and part-time Council members), which thoroughly constrains ICAB from bolstering the profession in Belize, and outdated and unintegrated laws and regulations, especially in taxation and financial reporting and auditing.
37. It is recommended that a Country Action Plan be prepared by the Government drawing on the recommendations of this report. The Indicative Action Plan below prioritizes the most pressing needs reflected through the prism of existing capacity challenges facing the Government and the profession. With respect to national actions, clearly the PAO (even with ICAC assistance) cannot be the determinative agency, although their advocacy for these items can accelerate their progress.

<table>
<thead>
<tr>
<th>INDICATIVE ACTION PLAN</th>
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<tbody>
<tr>
<td>A. Strengthen the capacity of national regulatory bodies and the professional accountancy organization to ensure compliance with financial reporting standards.</td>
</tr>
<tr>
<td>1. Ministry of Finance. Strengthen the capacity of the SOE unit in the Ministry of Finance to monitor and enforce financial reporting requirements.</td>
</tr>
<tr>
<td>i. Central Bank. Strengthen the capacity of the Central Bank for effective review and monitoring of the financial reports and provision of feedback to financial institutions.</td>
</tr>
<tr>
<td>B. Strengthen ICAB.</td>
</tr>
<tr>
<td>1. ICAB Technical Capacity. Strengthen the research and technical capacity of the Institute of Chartered Accountants of Belize. Recruit a technical resource, establish additional important committees, and become fully compliant with IFAC Statement of Membership Obligations.</td>
</tr>
<tr>
<td>2. ICAB Physical Capacity. Establish an ICAB Center and develop its physical facilities for providing library, classrooms, conference rooms, and research facilities.</td>
</tr>
<tr>
<td>3. Outreach to Educational Institutions. Develop accountancy education in universities and tertiary institutions with a view to upgrade the curriculum in graduate programs, which should include IFRS, ISA, IESBA Code of Ethics, and IPSAS.</td>
</tr>
<tr>
<td>C. Amend the law and regulations to further improve financial reporting requirements.</td>
</tr>
<tr>
<td>1. Define PIEs, SMEs, and micro-entities, along with related accounting and auditing thresholds. Private limited companies should not have the option of not appointing auditors. Develop a financial reporting framework for micro-entities. Auditors of any entity in Belize should hold ICAB membership.</td>
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Annex 8. Guyana

1. This Annex to the Caribbean accounting and auditing review provides an assessment of accounting, financial reporting, and auditing practices in the public and private sectors in Guyana. The information and conclusions contained within are drawn from Bank missions to Guyana, IMF Article IV reports, communications with the national professional accountancy body, central bank, regulatory agencies, and so forth, and from the official websites of such entities and that of the International Federation of Accountants (IFAC). The report’s main objectives are to identify challenges facing the accountancy profession, especially as reflected in the national professional accountancy organization (PAO), and develop policy recommendations to further enhance the quality of financial reporting in the country.

Country Context

2. The Guyanese economy is heavily dependent upon the export of six commodities—sugar, gold, bauxite, shrimp, timber, and rice—which represent a substantial portion of the country’s GDP and are highly susceptible to adverse weather conditions and fluctuations in commodity prices. Guyana’s entrance into the CARICOM Single Market and Economy (CSME) broadened the country’s export market, primarily in the raw materials sector, and contributed to positive growth almost every year over the past decade. The services sector, which accounts for more than half of Guyana’s GDP, grew by 5.5 percent in 2013 (with financial and insurance activities expanding by 11.2 percent). Despite recent improvements, the government still faces a debt-to-GDP ratio of about 58 percent (2014 IMF estimate). While most economies in the region contracted during the crisis years (2008-2009), the Guyanese economy recorded an average growth of 4 percent (which still left it the second poorest country in CARICOM). The macroeconomic outlook was judged positive for 2013 and growth was projected at 4.8 percent in 2014, with GDP per capita at $3,800. Inflation is expected to remain at around 3.5 percent.

3. Guyana’s private sector is characterized by micro, small, and medium-size enterprises (MSMEs), which account for more than 90 percent of all businesses and which lack easy access to credit. Globally, Guyana ranked 114 of 185 economies participating in the 2013 Ease of Doing Business Survey, a notable improvement from its 2007 ranking of 134. Significantly for this review, the Ease of Doing Business report listed access to credit as the most important constraint identified by respondents. The Guyana stock market—the Guyanese Association of Securities Companies and Intermediaries (GASCI)—opened its trading floor in 2003. At the same time, the Guyana Securities Council (GSC) was created to function as the market’s regulatory body. More than a decade later, the market remains handicapped by the limited

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2 Unless otherwise specified, the unit of currency used throughout this report, including all annexes, is the US dollar.
number of listed companies (one primary listing and 16 secondary listings), low trading volume, and limited regulatory oversight. As of Q1 2015, the total market capitalization of the traded stocks stood at approximately $708 million.

4. The state-owned enterprises (SOEs) sector is large; it provides significant employment opportunities and is a significant service provider in the formal economy. The most significant non-financial public enterprises (NFPEs) are the Guyana Sugar Corporation (GUYSUCO), Guyana Oil Company Ltd., Guyana Power and Light (GPL), and the National Insurance Scheme. In 2013, the operating cash surplus of the NFPEs declined by almost 61.8 percent (leading to an overall deficit) as a result of a 5.7 percent decline in current receipts and a 15.7 percent decline in transfers from the central government, primarily to GUYSUCO and GPL. The projection for 2014 was for the overall NFPE deficit to grow a further 30.5 percent. On the other hand, NFPE 2013 transfers to the central government, in the form of dividends, property, and corporation taxes, increased by 11.3 percent; and the growth in total public sector deposits in commercial banks was only 11.1 percent, compared to 36.4 percent in the previous year.4

5. The financial sector in Guyana is quite small and is dominated by three foreign banks, which account for approximately 60 percent of total banking assets. In total there are 6 banks, 6 non-banking financial institutions, 10 insurance companies, 18 licensed foreign currency agencies, and 5 money transfer agencies. The Central Bank of Guyana regulates the banking sector.

Statutory Framework


7. The Companies Act, administered by the Registrar of Companies, sets out record-keeping and audit provisions for companies registered under it, but it does not prescribe the applicable financial reporting and auditing standards.6 It does also not provide for differential financial reporting based on company size (a serious impediment given that more than 90 percent of enterprises are MSMEs that may find themselves overburdened with unnecessary reporting

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5 As will be seen subsequently (in the section on The Accountancy Profession) ICAG has adopted the International Financial Reporting Standards (IFRS), IFRS for SMEs, and the International Standards on Auditing (ISA).
6 These standards are set by ICAG, in keeping with the mandate of the ICAG Act (see Accounting Profession section below).
requirements) or public interest impact. The Sixth Schedule of the Act prescribes in detail treatments and disclosure requirements of various “Balance Sheet and Profit and Loss” items in the financial statements. The level of detail, coupled with rapid changes in good practice International Financial Reporting Standards (IFRS), gives rise to gaps between the Act’s requirements and of those of IFRS. Closing these gaps is technically demanding, and strains the capacity of the country’s accountancy profession. Arguably, a better approach would be to insist on IFRS standards (in keeping with ICAG’s decision) and remove the detailed provisions of the Sixth Schedule from the Act. The Companies Act requires that all companies annually present audited financial statements to their shareholders and requires audit reports to be issued by an ICAG member who holds a practicing certificate.\(^7\)

8. The rules of the GASCI and the GSC require all companies that trade on the stock exchange to produce, publish, and file half-yearly and annual financial statements, the latter of which must be IFRS compliant.

9. The Central Bank of Guyana is the regulatory authority for the banking industry and non-banking financial institutions (NBFIs),\(^8\) and requires the annual financial statements of banks and NBFIs to comply with IFRS be audited. Financial institutions are also required to publish quarterly information in accordance with a published supervision guideline.

10. Under the Insurance Act, the Central Bank provides regulatory oversight of the industry. Undertakings for Collective Investments (UCIs) are regulated by the Central Bank and fall under the Insurance Act.

11. All SOEs are registered under the Companies Act and are treated the same as any other limited company for accounting and financial reporting and audit purposes. This is a significant strength in the statutory financial reporting requirements for SOEs. SOEs are therefore required to comply with IFRS by virtue of reporting under the Companies Act, which specifies ICAG standards. However, the financial statements of a number of SOEs are not up to date and some audits are outstanding. The Enterprise Monitoring Division of the Ministry of Finance coordinates and prepares reports on the financial performance of 10 Public Enterprises and also examines the annual estimates of revenues and expenditures of 41 Statutory Bodies under the control of several Government ministries. The Financial Administration and Audit Act assigns the Office of the Auditor General the responsibility for the audit of all entities that receive public funds.

12. Although the Small Business Act 2004 defines quantitative thresholds of small business in terms of sales, assets, and number of employees, this is not explicitly linked to, or harmonized with, IFRS for SMEs and its Guide for Micro-entities.

\(^7\) The Act also provides for the Minister of Finance, after consultation with the Institute, to authorize any person to be appointed as auditor if the person (a) is in the opinion of the Minister suitably qualified for such appointment by reason of his knowledge and experience, and (b) s/he was in practice in Guyana as an auditor on the commencement of this Act. This grandfathering provision is open ended, with no deadline by which to attain ICAG membership—but given the passage of time since the Act’s enactment this has scant real-world impact.

\(^8\) This includes commercial banks, trust companies investment companies, merchant banks, building societies, insurance companies, and money transfer agencies.
13. The Public Corporations Act, which regulates financial reporting by Public Corporations, requires them to publish an annual report no later than six months after the financial year, a requirement breached by many corporations. The Act also requires financial statements of Public Corporations to be audited annually by an independent auditor. These audits reveal a multiplicity of recurring problems. The Act does not itself state the qualifications required of auditors. The same audit requirements apply to financial statements of Government Companies under the Companies Act.

Regulatory Environment

14. Currently both GASCI and GSC monitoring is limited to ensuring that listed companies file within the prescribed time and that the financial statements are complete.
   - GSC imposes monetary fines or can suspend companies from trading as sanctions on companies that trade on the stock exchange for failure to file or for tardy filing of financial statements.
   - GASCI and GSC require companies that trade on the stock exchange to prepare financial statements conforming to IFRS, and for these statements to be audited in accordance with ISA. GSC reviews the financial statement of publicly traded companies for compliance with IFRS and the Companies Act.

15. Central Bank oversight of the banking industry and NBFIs is limited to prudential regulatory supervision. The Central Bank plays no significant role in enforcement of financial reporting requirements. It also does not check compliance with mandatory accounting, auditing, and financial reporting requirements applicable to general purpose financial statements. For this they rely on external auditors.

16. In 2009, regulation of the insurance sector was moved from the Commissioner of Insurance to the Central Bank. Market perception is that oversight has improved since then. In 2014, Guyana embarked on the regulatory strengthening of the insurance and pension sectors to increase the solvency, governance, and depth of the sectors. (This followed the 2009 collapse of CLICO Guyana, a systemic insurer with assets amounting to 3 percent of GDP, the collapse of which reduced the insurance market by 75 percent.) The pension reform also needed to address key weaknesses of the voluntary private pension system: limited coverage (less than 4 percent of the labor force), long vesting periods (10 years), which particularly affect pensions for women, and a high rate of withdrawal. Partnering with the Central Bank and the Ministry of Finance, the World Bank provided a number of solutions to address deficiencies in the regulation of NBFIs in Guyana. Under the “Supervision of Non-Bank Financial Institutions” Project, the Bank helped the Government of Guyana draft a new law strengthening the regulation and supervision of insurance companies, in line with international standards on insurance supervision, as well as new insurance regulations. Under the “Pension Regulation” Project, the Bank helped the

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9 Defined by the Companies Act as a company in which not less than 51 percent of the paid-up share capital is held by the Government and including subsidiaries of Government Companies.

10 Legal requirements for monitoring accounting and auditing compliance are in the Companies Act, Financial Institutions Act, and ICAG rules. There are no significant differences in the accounting requirements for regulatory reporting and for general purpose financial reporting.
Government draft a new pension law.\textsuperscript{11} In addition, the reform includes requirements for appropriate safeguards in the management of pensions, such as having a trustee and a custodian, to ensure that companies sponsoring pension plans do not misappropriate pension funds. Simpler pension products were created for employers who want pensions but do not have the time or expertise needed for traditional occupational pension provision. However, to date these initiatives have not been passed by the Legislature.

17. Although the Financial Administration and Audit Act assigns the Office of the Auditor General\textsuperscript{12} the responsibility for the audit of all entities that receive public funds (10 Public Enterprises and 41 Statutory Bodies), in practice the Office lacks the capacity to undertake this function, instead assigning actual audits to professionals who are practicing members of ICAG.\textsuperscript{13} In principle, the SAI prescribes Financial, Compliance, and Performance Audits in its scope of Audit. The Auditor General is directed to report on his examination and audit of these accounts and to transmit such report to the body concerned and to the appropriate Minister for presentation to the National Assembly. The SAI has powers to share its audit reports with the public or media after tabling the report in Parliament. The various conditions of service of the Head of the SAI to secure independence are (a) special procedure for appointment; (b) special procedure for removal; and (c) independence to frame work plans; however, the SAI cannot expend resources independently: its budget has to be approved by the Ministry of Finance.

18. The Government of Guyana has not yet adopted the International Public Sector Accounting Standards (IPSAS); instead, it uses the cash basis of accounting. This is notwithstanding the fact that Section 56 of the Fiscal Management and Accountability Act 2003 requires the Minister of Finance to promulgate appropriate accounting standards to be used by officials responsible for the maintenance of Government accounts and records.

The Accountancy Profession: Organization, Standards, Education/Training, Compliance, and Stakeholder Perceptions

19. The accountancy profession in Guyana reflects a generalized regional trend characterized by (a) small size; (b) lack of integration with regional neighbors in terms of legal frameworks, regulations, practice monitoring, and mutual recognition agreements; (c) capacity challenges with respect to funding resources, professional staffing of the Institute, physical/IT infrastructure, and technical knowledge; and (d) some degree of disparity of access to up-to-date professional knowledge between those who work for local branches of international firms (which are underrepresented in Guyana relative to the Caribbean norm) and those in unaffiliated small and medium-size practices (SMPs).

\textsuperscript{11} For the Supervision of Non-Bank Financial Institutions Project, the Bank-executed Financial Sector Reform and Strengthening (FIRST) Initiative Trust Fund provided $195,000. For the Pension Regulation Project, the Bank provided $15,000, and the FIRST Trust Fund provided $118,000.

\textsuperscript{12} The Auditor General (Head of SAI Guyana) is established under the constitution by an act of the Parliament. The Head of State appoints (with no fixed term) the Head of the SAI, who should be a professionally qualified accountant.

\textsuperscript{13} This, however, is in accordance with the Act, which (in Part IV, Article 32 (3)) states: “… the Auditor-General may engage the services of a Chartered Accountant publicly carrying on the profession of accountant … and authorise that person to examine and audit the accounts of a body referred to in subsection (1) …”
20. The Institute of Chartered Accountants of Guyana (ICAG) is responsible for regulating the profession under the Institute of Chartered Accountants of Guyana Act 1991, which empowers the Institute to adopt accounting standards that are mandatory for all companies.\(^\text{14}\) In 1998, the ICAG Council adopted the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) for all entities under its purview, effective January 2000; in 2010 the ICAG Council adopted IFRS for Small and Medium-sized Entities (SMEs), as issued by IASB. The adoption covers all amendments to existing standards, consequently endorsement of individual new or amended standards is not required. The challenge ICAG faces is supporting the successful implementation of these standards. For this, ICAG will need to identify and conduct, facilitate, or support various knowledge activities with local, regional, and international partners. ICAG has also adopted the International Standards on Auditing (ISA) issued by the International Auditing and Assurance Standards Board (IAASB) and the IFAC Code of Ethics issued by the International Ethics Standards Board for Accountants (IESBA).

21. ICAG’s principal objectives are to (a) promote and increase the knowledge, skills, and proficiency of its members and students; (b) regulate the professional conduct of its members and students; (c) promote the interests of the profession; (d) train and educate those in or intending to enter the profession; (e) maintain contact with other recognized accountancy bodies; and (f) submit the views of members to Government on matters pertinent to the profession.

22. ICAG has some 85 members, of whom only 27 were in public practice at end-2013 and only 13 were employed in the public sector, despite its economic weight.\(^\text{15}\) The Institute is a member of both the Institute of Chartered Accountants of the Caribbean (ICAC) and the International Federation of Accountants (IFAC). The principal sources of ICAG revenue are membership and entrance fees, practice monitoring fees, and practice certificate fees, which at end-2013 constituted G$1,588,000; G$931,000; and G$3800, respectively, while the principal sources of expenditure were dues to IFAC and ICAC, practice monitoring, and staff costs, at G$1,042,200 and G$287,188; G$877,310; and G$458,100, respectively.\(^\text{16}\)

23. Candidates for ICAG membership must be members of specific international professional accountancy bodies that require its members to have completed a professional

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\(^\text{14}\) Prior to this, the profession in independent Guyana may be said to date to November 1966, when eight Professional Accountants signed a Memorandum and Articles of Association for the incorporation under the Companies Act of the Guyana Association of Accountants (renamed, in 1974, as the Institute of Chartered Accounts of Guyana).

\(^\text{15}\) Source: ICAG 2013 Annual Report. The great majority of ICAG members hold individual membership (whose training and requirements served as their entry in ICAG membership) in the UK-based Association of Chartered Certified Accountants (ACCA); others are affiliated with the Institute of Chartered Accountants in England and Wales and the American Institute of Chartered Public Accountants. (In terms of the 27 members in practice, the respective figures for foreign affiliation are 22, 2, and 3.) Thus, in addition to standards, guidance, and codes adopted by ICAG, most ICAG members are also subject to their varying individual professional membership obligations and they sometimes enter the profession with varying skill sets. Moreover, it is challenging for ICAG to ensure that such members comply with the requirements of their foreign affiliations.

\(^\text{16}\) As of February 2015 the US$ and G$ exchange rate was 1:207; thus the respective figures are approximately $7940; $4655; and $1900; and $5211 and $1436; $4387; and $2780, respectively. ICAG’s total annual income/loss for 2013 was -G$19,928/-$100, and the total cash on hand and at bank was G$6,101,532/$3052—underscoring the financial challenge facing the Institute.
accountancy education program, passed appropriate examinations, completed two years of work experience, and meet subsequent Continuing Professional Development (CPD) requirements.

24. The Institute is governed by a Council of eight members who are elected by members at the annual general meeting. The activities of the Institute are carried out by a Secretariat and 10 committees; however, there are clearly concerns among stakeholders as to the efficacy of the committee operations, given the financial and full-time staffing capacity challenges facing the Institute.

25. In November 2012, the ICAG Council adopted the CPD standards developed by ICAC. Thus, ICAG members must accumulate 120 hours of CPD over a moving three-year reporting period (with 60 of these hours verifiable), with a minimum of 20 hours completed annually.

26. Practice Monitoring/Peer Reviews are being undertaken through a tripartite agreement, with ACCA and ICAC, with ACCA performing the monitoring but the national accountancy body retaining full regulatory responsibility. As of end-2013, the profession in Guyana had achieved a 65 percent satisfactory rating under the quality assurance program, with respect to ISA and International Standards on Quality Control No. 1—Quality Assurance (ISQC1). In September 2012 ICAG established a Regulatory Committee to receive and act on reports on practice monitoring reviews. To promote needed independence from the ICAG Council, the Committee comprises non-practicing members supported by a member of the legal profession. However, as all the parties to the tripartite agreement are professional accountancy bodies active in the country, these reviews may not be considered by all stakeholders as equivalent to those conducted by a fully independent oversight authority with membership in the Forum for Independent Audit Regulators.

27. Some accounting reports are prepared by individuals who are not PAO members; and there are incidences where the auditors also prepare company financial reports. Needless to say,

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17 Investigations, Disciplinary, Appeals, Student Affairs, Technical, Finance, Membership/Public Relations, International Relations, Regulatory, and Building.

18 The practice monitoring program began in 2009 and is scheduled to run for six years; it has to date included visits to all practicing accountants who perform audits and two rounds of follow-up visits.

19 The plurality of Caribbean accountants that maintain an affiliation with an international accountancy body do so with ACCA (though only a minority of these are Chartered Accountants). ACCA, through its support for CPD and practice monitoring (among other things), has contributed significantly to the profession’s development within the region. Notwithstanding this contribution, ACCA is itself a professional accountancy body—and one that has a commercial relationship with the Caribbean’s national PAOs. It is thus far from unreasonable for some stakeholders to perceive a potential for conflict of interest in its monitoring of these PAOs and to judge that a fully independent oversight body (such as Jamaica’s Public Accountancy Board) would be a preferable option in principle—even recognizing that the ACCA-conducted monitoring reviews are independent of the national PAO being reviewed. (However, in the first instance ACCA cannot sanction any failings—which responsibility falls to the PAO, further limiting independence—although ACCA could introduce sanctions in the absence of PAO action if the party concerned was an ACCA member.) Moreover, such a fully independent option is clearly the emerging best practice norm worldwide—though (as could be expected) the earliest adopters tend to be clustered in the more highly developed market economies. This lack of full independence may attenuate the full benefit of the regulatory function. From the perspective of national PAOs, however, this potential issue may well be outweighed by the more practical concern with resources: with practice monitoring supervision missions averaging $22,000 there is a substantial burden imposed on national professional accountancy organizations. As noted earlier (see paragraph 22), ICAG’s second-largest expenditure category was practice monitoring.
this falls far short of international good practice and is probably facilitated by the aforementioned problem that not all accountants in Guyana are members of ICAG.

28. High-quality accounting education underpins every aspect of financial reporting. Education activities at ICAG for members mainly focus on CPD workshops and seminars. Its entry qualification program is through a joint examination arrangement with ACCA. However, this joint examination scheme is not supported by joint membership on passing the ACCA examination. This disadvantages ICAG in terms of its membership growth and sustainability. Once candidates pass the joint examination they may join ACCA membership but not necessarily incur the costs of ICAG membership (unless they intend to enter public practice). ICAG has no accounting technician program. ICAG needs to support training programs aimed at increasing the numbers of both accounting technicians and professional accountants, without compromising on quality of the graduates. ICAG, consistent with its legal mandate of promoting the accountancy profession, should undertake awareness campaigns marketing the profession targeted at tertiary training institutions and universities.

29. Compliance with stated standards can be measured across the profession’s obligation to IFAC and its own members, findings of a review of financial statements, and findings of quality review monitoring.

30. As a full member of IFAC, ICAG has an obligation to implement IFAC’s Statements of Membership Obligations (SMOs). The degree of compliance with these obligations provides one indication of ICAG’s ability to serve its members, stakeholders, and the wider community in Guyana on issues related to high-quality financial reporting. Assessment of compliance is made using IFAC SMOs 1-7 (Revised) as benchmarks. In February 2010, the ICAG Council approved the original ICAG Action Plan, which was most recently updated in April 2015. Table 1 reflects ICAG’s status with respect to IFAC’s Statements of Membership Obligations.

<table>
<thead>
<tr>
<th>SMO</th>
<th>Degree of Responsibility (Direct/Shared)</th>
<th>Current Status and Challenges</th>
</tr>
</thead>
<tbody>
<tr>
<td>SMO 1</td>
<td><strong>Direct.</strong> ICAG has direct responsibility for quality assurance of its members in public practice and their firms. The implementation is however shared with ICAC and ACCA through a tripartite MoU.</td>
<td>This obligation is being discharged through a tripartite arrangement with ICAC and ACCA. To enhance independence of the process, the ICAG Regulatory Committee receives and acts on the findings of the practice monitoring reviews. However, this still falls short of the IFAC standard, as the process is not fully independent of the profession.</td>
</tr>
<tr>
<td>SMO 2</td>
<td><strong>Shared.</strong> This is shared with various education and training providers, including ACCA.</td>
<td>In addition to training activities with ACCA, there is also focus on CPD activities. The Technical Committee of the ICAG provides members with opportunities for continuing professional development by hosting relevant lectures, seminars, conferences, etc. Topical issues are presented at the annual conference in September. In 2012, ICAG adopted the Continuing</td>
</tr>
<tr>
<td>SMO 3</td>
<td><strong>International Standards, Related Practice Statements, and Other Pronouncements Issued by the IAASB</strong></td>
<td><strong>Direct.</strong> Adopted by ICAG Council.</td>
</tr>
<tr>
<td>SMO 4</td>
<td><strong>IESBA Code of Ethics for Professional Accountants</strong></td>
<td><strong>Direct.</strong> Adopted by the ICAG Council.</td>
</tr>
<tr>
<td>SMO 5</td>
<td><strong>International Public Sector Accounting Standards and Other IPSASB Guidance</strong></td>
<td><strong>Shared.</strong> Shared with Ministry of Finance, which has primary responsibility.</td>
</tr>
<tr>
<td>SMO 6</td>
<td><strong>Investigation and Discipline</strong></td>
<td><strong>Direct.</strong> The ICAG has direct responsibility over this obligation.</td>
</tr>
<tr>
<td>SMO 7</td>
<td><strong>International Financial Reporting Standards</strong></td>
<td><strong>Direct.</strong> Adopted by the ICAG Council.</td>
</tr>
</tbody>
</table>
31. As part of this Caribbean-wide assessment of accounting and auditing, a review was undertaken of a sample of financial statements from regulated companies whose financial reporting is of high quality. The sample set comprised nine companies (two banks, three public corporations, two insurance companies, and two large private corporations) that posted their statements on their websites (financial statements of large unregulated private companies and SMEs could not be accessed). A desktop review of these financial statements was undertaken, without access to any audit working papers and company records. The review thus focused only on presentation and disclosure, and the quality of compliance with auditing standards was assessed by the findings in the review of audited financial statements. The reviewed financial statements were all audited by firms with global affiliations/memberships. Financial statements audited by local, unaffiliated SMPs could not be found on websites. Table 2 highlights the findings.

Table 2. Deficiencies of Reviewed Financial Statements

<table>
<thead>
<tr>
<th>Findings</th>
<th>Entity sectors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inadequate/non-disclosure of accounting policies for the following:</td>
<td>Public Corporations, large unregulated private</td>
</tr>
<tr>
<td>borrowing costs, revenue recognition, foreign currencies, key</td>
<td>companies</td>
</tr>
<tr>
<td>sources of estimation uncertainty, and provisions.</td>
<td></td>
</tr>
<tr>
<td>Items of other comprehensive income included in profit for the year</td>
<td>Public Corporations</td>
</tr>
<tr>
<td>A set of financial statements had inconsistent disclosure patterns.</td>
<td>Public Corporations</td>
</tr>
<tr>
<td>Very material figures that require detailed explanatory accounting</td>
<td></td>
</tr>
<tr>
<td>policy notes on recognition, measurement, and disclosure and notes</td>
<td></td>
</tr>
<tr>
<td>supporting them did not have such supporting information, making it</td>
<td></td>
</tr>
<tr>
<td>difficult to fully appreciate the financial statements. On the other</td>
<td></td>
</tr>
<tr>
<td>hand, the same set had a lot of clutter on immaterial figures supported</td>
<td></td>
</tr>
<tr>
<td>by detailed accounting policies and notes.</td>
<td></td>
</tr>
<tr>
<td>One set of financial statements disclosed very material balances in</td>
<td>Public Corporation</td>
</tr>
<tr>
<td>the Statement of Financial Position which were not accompanied by</td>
<td></td>
</tr>
<tr>
<td>notes to give more information about their nature, recognition, and</td>
<td></td>
</tr>
<tr>
<td>measurement policies.</td>
<td></td>
</tr>
<tr>
<td>A number of financial statements did not disclose most of the</td>
<td>Public Corporation and Insurance Company</td>
</tr>
<tr>
<td>information required by IAS 19, “Employee Benefits.”</td>
<td></td>
</tr>
</tbody>
</table>

32. While the quality of audits is improving, more remains to be done, as is suggested by an analysis of the review findings of the monitoring undertaken by ACCA from 2009 to 2013. Although the number of reviews is not large enough to draw expansive conclusions, a general trend emerges from the first visits by ACCA that indicate issues of audit quality. The results are summarized in Table 3.
### Table 3. ICAG Analysis of ACCA Monitoring Findings (2009-2013)

<table>
<thead>
<tr>
<th>Visit outcome and reason</th>
<th>First visits</th>
<th>Follow-up visits</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Satisfactory outcomes</td>
<td>1</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>(2) Unsatisfactory outcomes--limited number of serious deficiencies in compliance with auditing standards requiring some improvement</td>
<td>2</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>(3) Unsatisfactory outcomes--widespread serious deficiencies in compliance with auditing standards requiring significant improvement</td>
<td>2</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>(4) Unsatisfactory outcome--unsatisfactory compliance with auditing standards and serious independence and other issues</td>
<td>0</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>5</td>
<td>6</td>
<td>1</td>
</tr>
</tbody>
</table>

*Source: ICAG.*

33. Broadly across all regulators, the capacity to enable compliance, enforcement, and sanction are viewed by stakeholders as suboptimal and would require significant support for strengthening of their capacity.

34. It is recommended that a Country Action Plan be prepared by the Government and ICAG, in consultation with stakeholders, drawing on the analysis of this report. Table 4 reflects a proposed reporting framework, while the indicative reform priorities listed below attempt to reflect the degree of capacity challenges facing the profession in Guyana. With respect to national actions, clearly the PAO (even with ICAC assistance) cannot be the determinative agency, although their advocacy for these items can accelerate their progress.
### Table 4. Proposed Reporting Framework

<table>
<thead>
<tr>
<th>Private Sector</th>
<th>Public Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Entity</strong></td>
<td><strong>Accounting/Auditing Framework</strong></td>
</tr>
<tr>
<td>PIEs, including large private companies that meet the definition of a PIE</td>
<td>Report in compliance with IFRS Mandatory audit in compliance with ISAs</td>
</tr>
<tr>
<td></td>
<td>Regulators/non-profitmaking entities</td>
</tr>
<tr>
<td>Small and medium-sized entities</td>
<td>Report using IFRS for SMEs Mandatory audit in compliance with ISA (use IFAC Guide to Use of ISA in the Audit of SMEs)</td>
</tr>
</tbody>
</table>

**Reform Priorities**

**INDICATIVE ACTION PLAN**

A. Strengthen the capacity of national regulatory bodies and the professional accountancy organization to ensure compliance with good practice financial reporting standards.

B. Strengthen ICAG
INDICATIVE ACTION PLAN

1. **ICAG Technical Capacity.** Strengthen the research and technical capacity of the Institute of Chartered Accountants of Guyana. Recruit a technical resource, strengthen the operations of important committees, and become fully compliant with IFAC Statement of Membership Obligations.

2. **ICAG Physical Capacity.** Establish an ICAG Center and develop its physical facilities for providing library, classrooms, conference rooms, and research facilities.

3. **Outreach to Educational Institutions.** Develop accountancy education in universities and tertiary institutions with a view to upgrade the curriculum in graduate programs, which should include IFRS, ISA, IESBA Code of Ethics, and IPSAS, as well as a focus on an accountancy technician program. Discuss with ACCA converting the joint qualification scheme to a joint membership scheme.

**C. Amend the law and regulations to further improve financial reporting requirements**

1. Amend the Companies Act to define PIEs, SMEs, and micro-entities in qualitative as well as quantitative terms, along with related accounting and auditing thresholds. Develop a financial reporting framework for micro-entities.

Annex 9. Suriname

1. This Annex to the Caribbean Accounting and Auditing review provides an assessment of the accounting, financial reporting, and auditing practices in the public and private sectors in Suriname. The information and conclusions contained within are drawn from the ROSC A&A that the World Bank delivered to the Government, and subsequent Bank missions to the country, IMF Article IV reports, communications with the national professional accountancy, central bank, regulatory agencies, and so forth, and from the official websites of such entities. The main objectives of this report are to identify challenges facing the accountancy profession and develop policy recommendations to further enhance the quality of financial reporting in the country.

**Country Context**

2. Suriname is one of South America’s fastest developing countries, with an economy dominated by exports of natural resources. It is the smallest country in South America with a total land area of 163,820 sq km (or 63,241 sq miles) and a population of 0.54 million (2012 Census). The economy’s exports is dominated by natural resources, especially alumina, oil, and gold. Both GDP and GDP per capita grew during the period 2007-2013 (annually 3.9 percent and 2.6 percent, respectively). Gross national income (GNI) per capita was $8,680 in 2012 (95.6 percent of the Latin American and Caribbean average of $9,070). The service sector is dominant in the economic activity, representing 53.2 percent of GDP (2013), with the wholesale and retail trade sector as the largest share (20.1 percent). In 2013, agriculture represented 5.5 percent of GDP, Mining and Quarrying 5.3 percent, and Manufacturing 19.8 percent. The

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20 Report on the Observance of Standards and Codes Accounting and Auditing: Suriname, Report No. AAA74-SR, May 31, 2012. Given the recent publication date, too little time has passed to assess the status of implementation completion of the report’s recommendations.

21 Calculations based on the National Account Sheet, GBS August 2014.

22 World Bank, Suriname at a Glance (2012). Unless otherwise specified, the unit of currency used throughout this review is the US$.  

23 Calculations based on the National Account Sheet, GBS August 2014.
Growing importance of the services sector is also linked to mining and oil. Other rapidly growing sectors remain relatively small in nominal terms. The sustained rise in mineral commodity prices in the last decade has acted as a disincentive to economic diversification, but with international mineral prices on a downward trend this will probably change. Agricultural production has fallen steadily since the early 1980s and Suriname now exports fewer agricultural products. Some structural barriers to agricultural productivity have important implications for food security, resulting in an elevated dependence on imports to supply domestic markets. There are also social implications from the limited regulation of the extractive sector and its geographic and structural separation from the rest of the economy.

3. The public sector employs more than 60 percent of the formal sector workforce. Suriname has 144 parastatals and state-owned enterprises (SOEs), some of which are among the country’s largest business entities while others (42 of them) are not in operation, although they have assets and/or liabilities. Of the entities in operation, 74 are parastatals, 20 public corporations, 4 financial institutions, and 4 enterprises having mixed ownership (3 banks and one hotel). In some cases, there is limited financial information on these entities, although in recent years some improvements have been noted. The Government plays an important distributive role in the economy, collecting revenues from royalties, taxes, and grants and reallocating them via the public sector.

4. The private sector is characterized by many small firms producing goods and services, mainly for domestic trading, with the sector’s growth hampered by the state’s heavy presence in the economy. It is estimated that there are about 16,000 active private enterprises although a far larger number (28,000) are formally registered with the Suriname Chamber of Commerce. Limited access to financial resources is cited as one of the main impediments to private sector growth. One factor impeding access to credit is that financial information about the firms seeking credit is often insufficient or unavailable, which means that potential lenders are unable to assess these firms’ repayment capacity.

5. There is limited foreign investment and few foreign companies operating in Suriname. Foreign direct investment, 2007-2009, was only $539 million. Foreign companies are concentrated in the gold and bauxite sectors. Currently, all investments, both foreign and local, are subject to the same standard regulatory laws that govern daily trade. However, larger, multi-million dollar investors have been able to negotiate separate terms with the Government of Suriname in matters such as land acquisition and mining.

6. The financial sector comprises 9 commercial banks, 5 insurance companies, 34 pension funds, and 29 credit unions. Other financial intermediaries include finance companies, investment companies, and development banks. Some of these are subsidiaries of the commercial banks. The Government holds an interest in seven financial institutions, with its participation ranging from 10 to 100 percent. The credit unions are quite small; their total assets are less than

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24 Even if the formal mining sector dominates economic activities (and exports) its benefits are limited due to its enclave character (limited spillover capacity to the rest of the economy).

25 During the last 20 years Suriname’s public sector employment, in government, autonomous agencies, and public enterprises, has remained stable at over 60 percent of the economically active population. (IDB, Suriname Government Study Update, July 2010, page 18.) The dependence on mining exports and a dominant public sector renders Suriname’s small open economy fragile.
1 percent of the assets of the financial sector. The three largest banks account for more than 80 percent of total assets and deposits of the sector.

7. The Suriname Stock Exchange (SSE) started operations in 1994. The 11 companies listed in the SSE have a market capitalization of about $350 million in 2012. (The market capitalization significantly increased in February 2015 as a consequence of the public offering of shares in the DSB Bank.) Trading on the stock market is quite low. The buyers of stock tend to retain the stock for a substantial period rather than promptly selling their shares. There is no supervision ordinance in place for the SSE. The 11 SSE members have internal regulations in place with respect to the terms and procedures for the settlement of transactions.

Statutory and Regulatory Framework

8. The Trade Law of 1936 governs the formation of companies in Suriname. There is no separate accounting and auditing act in Suriname to regulate the accountancy profession. However, the Trade Law of 1936 provides the basis of accounting and the reporting, requiring the preparation of financial accounts of a company (Article 1) and preparation of a balance sheet within six months after the close of the fiscal year (Article 2). A limited liability company is required to prepare a balance sheet and profit and loss account, including notes to the financial statements, within eight months from the end of the fiscal year (Article 73). However, no reference is made in the Trade Law about following any accounting standards for reporting on business entities in Suriname. Significantly, however, a draft Financial Statements Act has been presented to the Vice President and his Cabinet.

9. The Trade Law has no separate legal requirements for audit unless it is specifically mentioned in the Articles of Association of the company. Article 74 of the Trade Law requires a general meeting of shareholders (only if the deed of incorporation states this as mandatory) and appointing an expert (undefined) to “investigate” (not “audit”) the financial statements. Per the Trade Law, management should publish the financial statements in the Trade Register within eight days after approval by the general meeting of the shareholders.

10. The Income Tax Law does not reflect the actual information needs of the tax authority, such as submission of financial reports for business entities. However, per the Trade Law of 1936, companies are required to report on their fiscal financial position (balance sheet) and the operational result (profit and loss account). The Law requires neither notes to the balance sheet and profit and loss account nor notes to the applied accounting principles.

11. The Government Audit Bureau (Centrale Landsaccountantsdienst-CLAD) was created by law as a parastatal in 1972 and carries out the duties of government internal auditor per Article 44 of the Government Accounts Decree, 1953. In addition to this authority, Article 12 of the State Enterprises Act stipulates that all state enterprises are subject to audit by CLAD. For state-run foundations, state-owned corporations, and legal entities sui generis, CLAD must be explicitly named as auditor. CLAD is provided full access to all ministries and state enterprises. It conducts internal audits on behalf of the Ministry of Finance and also conducts independent audit like a supreme audit institution in other countries.
12. The Suriname Constitution, 1987 (amended 1992), Chapter XVI, Articles 149-152 provides for the establishment of a supreme audit institution to supervise the expenditure of state finances as well as to control the management of Government. The Constitution of Suriname also states that the closing of all budget exercises must be approved by law and that the justification for the realization (execution) of revenues and expenditures of the State must be undertaken before the National Assembly with the submission of the financial statements reviewed by an independent body (in this case the Rekenkamer) created by law.

13. The Central Bank of Suriname is responsible for prudential supervision of financial institutions. The Central Bank has five regulations for the financial sector, but none of these require the preparation of the accounts of the financial institutions using IFRS. In addition to the provisions of the Trade Law of 1936, the legal provisions for regulation of financial institutions are governed by the Bank Act of 1956 (reviewed in 2005 and updated in 2010 and approved by the Parliament) and the Law on Supervision of Financial Institutions, which were updated on December 2, 2011. These pieces of legislation include the following provisions: (a) financial institutions are required to prepare financial statements that include a balance sheet, profit and loss account, and notes to financial statements; and (b) the Supervisory Board of the respective financial institution assesses the financial statements and is authorized to appoint an auditor, who must be a certified accountant. Under the Bank Act, no reference is made to the accounting standards to be followed by the financial institutions. Except for smaller pension funds, all financial institutions are audited to meet the requirements of the Articles of Association of the respective companies. The Central Bank does not have any role in selecting an auditor nor does it have any power to object to the appointment of an auditor selected by a company.

14. The Central Bank inspectors examine whether financial statements have been prepared in accordance with established regulations. In this inspection process, no attempt is made to assess the degree of compliance with any applicable standards on preparing general purpose financial statements. Onsite supervision is conducted once in two years as the banking regulator has limited human resources and capacity. The Central Bank follows Basel 1 with the exception of the guidelines on market risk, which has not yet been incorporated.

15. Per the Commercial Register Act, all business entities in Suriname are required to be registered with the Chamber of Commerce and file their financial reports. Of its 27,776 members formally registered with the Chamber of Commerce, or of the 16,000+ active members, fewer than 10 comply with the requirements of submitting financial reports to the Chamber. The Chamber of Commerce has no technical capacity to identify accounting and auditing violations; in most cases, it does not even enforce the timely filing of annual audited financial statements.

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26 These are (a) Loan Provision Regulations, (b) Fixed Asset and Investment Regulations, (c) Capital Adequacy Regulations, (d) Prudential Regulations on Large Exposures, and (e) Insider Lending Regulations.

27 Only the Dutch Certified Accountant with a post-master’s degree “registered accountant” qualification is currently mentioned.

28 Basel 1 is a set of international banking regulations put forth by the Basel Committee on Bank Supervision, which set out the minimum capital requirements of financial institutions with the goal of minimizing credit risk. Banks that operate internationally are required to maintain a minimum amount (8 percent) of capital based on a percentage of risk-weighted assets.
16. Financial institutions are required to submit financial statements to the Central Bank every month per prescribed format, which includes the consolidated balance sheet and income statements and 15 annexes with detailed reporting requirements. However, some of the disclosure requirements are not in line with IFRS/IAS. For instance, the allowance for loan losses is established in accordance with regulatory requirements rather than with IAS 39, *Financial Instruments: Recognition and Measurement*; thus interest revenue recognition on bad loans differs from IAS 39 requirements.

17. The State-Owned Enterprise (SOE) Division in the Ministry of Finance is responsible for monitoring the accounting, financial reporting, and auditing requirements of parastatals and SOEs. Of the 102 such entities that are in operation, the audit of about 40 are conducted by CLAD, the internal audit wing of the Ministry of Finance. However, CLAD has limited capacity, so some audits are conducted by private sector auditors. The audits of some parastatals, SOEs, and corporations are outstanding for many years. Some have not been audited since 2001-2002. The audits of most of the state-owned banks are almost up-to-date, except the National Development Bank, which was last audited in 2007. Audit is outstanding for 9 public corporations. All SOEs follow Netherlands GAAP for accounting and financial reporting except State Oil Company, which follows US GAAP.

18. There is no legal requirement for audit of small and medium-size enterprises (SMEs). As a result, there is no demand for preparation of financial statements and audit of these organizations. The financial institutions also do not demand audit reports while processing loan applications and traditionally depend more on the quality of the collateral and personal reputation of their clients. The Tax Act also does not require submission of financial statements or audited financial statements. Although all SMEs are required to register with the Suriname Chamber of Commerce and file an annual report, the Chamber of Commerce, as noted earlier, does not enforce the latter requirement. As such, there is no monitoring mechanism of the accounting and auditing of SMEs.

19. Currently, there is no legal basis for setting accounting and auditing standards in Suriname. Most of the financial statements prepared in Suriname are based on The Netherlands’ Generally Accepted Accounting Principles (NL GAAP). Since most audit firms in Suriname are associated with big international audit firms, they follow ISA, which are translated into Dutch. The current requirements of the accounting and auditing standards for Surinamese business entities, and publication requirements, are summarized in Table 1.

| Table 1. Business Entities in Suriname: Current Accounting, Auditing and Publication Requirements |

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29 The Netherlands GAAP were in practice in The Netherlands. However, in recent years, the country has been gradually moving to IFRS. For example, IFRS in the EU are required for consolidated financial statements of listed entities. The countries have an option to expand this requirement and require IFRS for individual accounts of listed entities and also for some other nonlisted entities (but not all), and The Netherlands chose this option. For more details see the links:

<table>
<thead>
<tr>
<th>Type of entity (number)</th>
<th>Regulatory organization / agency</th>
<th>Mandatory accounting standards</th>
<th>Mandatory audit requirements</th>
<th>Audit firm rotation</th>
<th>Publication</th>
</tr>
</thead>
<tbody>
<tr>
<td>Listed companies (11)*</td>
<td>Suriname Stock Exchange</td>
<td>No mandatory accounting standard applicable</td>
<td>No mandatory audit requirements noted. However, audit is required by the Articles of Association of the respective companies</td>
<td>None</td>
<td>Audited financial statements at the respective company’s office</td>
</tr>
<tr>
<td>Banks* (9)</td>
<td>Central Bank of Suriname</td>
<td>No mandatory accounting standard applicable</td>
<td>Audit required by the Central Bank of Suriname</td>
<td>None</td>
<td>Audited financial statements at the respective company’s office</td>
</tr>
<tr>
<td>Pension Funds* (34)</td>
<td>Central Bank of Suriname</td>
<td>No mandatory accounting standard applicable</td>
<td>Audit required by the Central Bank of Suriname</td>
<td>None</td>
<td>Audited financial statements at the respective company’s office</td>
</tr>
<tr>
<td>Insurance companies* (5)</td>
<td>Central Bank of Suriname</td>
<td>No mandatory accounting standard applicable</td>
<td>Audit required by the Central Bank of Suriname</td>
<td>None</td>
<td>Audited financial statements at the respective company’s office</td>
</tr>
<tr>
<td>Credit Unions* (29)</td>
<td>Central Bank of Suriname</td>
<td>No mandatory accounting standard applicable</td>
<td>Audit required by the Central Bank of Suriname</td>
<td>None</td>
<td>Audited financial statements at the respective company’s office.</td>
</tr>
<tr>
<td>Cooperatives*</td>
<td>Suriname Chamber of Commerce</td>
<td>No mandatory accounting standard applicable</td>
<td>Requirements of audit are defined by the Articles of Association of the respective companies</td>
<td>None</td>
<td>Audited financial statements at the respective company’s office if applicable.</td>
</tr>
<tr>
<td>Parastatals (74)*</td>
<td>Concerned ministry for parastatals</td>
<td>No mandatory accounting standard applicable</td>
<td>Audit required by statutes or bylaws</td>
<td>None</td>
<td>Audited financial statements at the respective company’s office and also at the Ministry of Finance</td>
</tr>
</tbody>
</table>

*Numbers denote the count of entities mentioned.
<table>
<thead>
<tr>
<th>Type of entity (number)</th>
<th>Regulatory organization / agency</th>
<th>Mandatory accounting standards</th>
<th>Mandatory audit requirements</th>
<th>Audit firm rotation</th>
<th>Publication</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nonlisted companies</td>
<td>Suriname Chamber of Commerce</td>
<td>No mandatory accounting standard applicable</td>
<td>Articles of Association of respective companies</td>
<td>None</td>
<td>None</td>
</tr>
</tbody>
</table>

*These are public interest entities (i.e., entities that are of significant because of their business, their size or their number of employees, or their corporate status, and which have a wide range of stakeholders). Examples of such entities might include financial institutions, insurance companies, investment firms and pension firms, SOEs, parastatals, and listed companies.

20. The absence of mandatory auditing standards potentially affects the quality of auditing. There is no mandatory requirement on the use of any particular set of auditing standards in Suriname. In their audit reports, practicing auditors refer to the use of “generally accepted auditing standards” (GAAS). However, there is no mention of the jurisdiction of GAAS. Since all of Suriname’s practicing auditors were trained in The Netherlands, and all the founders of the Surinamese accountancy body are members of The Netherlands’ principal accountancy body, the Royal Nederlandse Beroepsorganisatie van Accountants (NBA), they cite Dutch auditing standards in the conduct of audit in Suriname. The minority of Surinamese audit firms that are not associated with international networks, have less immediate access to high-quality audit practice manuals and are less directly in touch with international good practices. While Surinamese chartered accountants have unlimited access to the knowledge database of the NBA (and AICPA where applicable) through their international memberships, and can update their libraries with hardcover Dutch version of ISA (NV COS) and other relevant literature relating to audit and assurance best practices, the limited practice-oriented methodological guidance means that auditors, especially those in SMPs, sometimes find it challenging to stay fully abreast of evolving concepts such as audit risks, audit planning, internal control, documentation, and going concern. It is also sometimes difficult to apply normal audit procedures regarding related party transactions because of the lack of legal requirements concerning group accounting and consolidation.

21. Most of the corporate entities in the country rely on auditors for preparation of their financial statements. As previously noted, there is a general belief in the country that company auditors are responsible for both preparation and auditing of financial statements. Given the lack of capacity at the entity level to prepare full sets of financial statements, auditors are generally involved in preparation and finalization of financial statements before commencing the audits. Too much reliance on the auditors in the preparation of financial statements compromises the quality of audit and results in violation of auditor independence principles.

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30 GAAS is intended to minimize the possibility of an auditor missing material information. GAAS is divided into three main sections: general standards, standards of fieldwork, and standards of reporting. Note that GAAS is intended to ensure that the auditor has adequately planned the audit in advance, is independent of the client, and obtains reliable evidence (including by ensuring that a company’s financial statements are presented in accordance with GAAP). As noted elsewhere in this ROSC review, sometimes in Suriname there is a gap between these intentions and actual practice.
22. Many stakeholders have expressed concerns about close relationships between auditors and their clients. This poses challenges with regard to perceptions of auditors’ independence, and care should be taken to avoid perceptions that the prevalence of unqualified opinions on the audit reports (which is statistically the norm worldwide) is a function of this environment. Mechanisms need to be in place to ensure that auditors are not affected by undue influence from clients.

The Profession

23. In Suriname, the demand for qualified accountants outstrips the supply. This shortage—and the wide variations across the region with respect to accounting, reporting, and auditing standards and practices—is reflected in the following fact, which restricts itself to small states: the ratio of professional accountants per thousand population is 0.07 in Suriname compared to 0.44 in The Bahamas, 0.81 in Trinidad & Tobago, 0.92 in Mauritius, 2.54 in Barbados, 2.74 in Singapore, and 3.68 in Malta. Except for large corporate entities, the corporate sector in general does not have access to professionally qualified accountants, of whom there are only 40 or so in Suriname, whereas the Chamber of Commerce and other stakeholders estimate demand as high as 200-300.

24. The Surinaamse Vereniging van Accountants (Institute of Chartered Accountants of Suriname), or SUVA, was established in 2007 by local qualified accountants who were members of NBA, and adopted a charter incorporating a mission to serve the public interest in accordance with international standards and good practice. In April 2011, its membership reached 28, of whom 18 are independent public practitioners, with most of the remaining members working in private enterprises. To date, SUVA does not have formal legal recognition, although it is in the process of obtaining it.

25. The current legal status of SUVA restricts its ability to regulate the accountancy profession in Suriname. Moreover, SUVA is dependent on volunteer members and should reduce this dependence by employing adequate full-time qualified personnel. Going forward, increasing technical resources will help SUVA to organize itself as a professional body and discharge its obligations to its membership, including supervision of members, implementation of ethical standards and disciplinary procedures, and provision of continuing professional development (CPD). Since 2014, SUVA has been an accredited educational body of the NBA, which licenses SUVA to deliver CPD credits to each of its trainings.

26. In June 2010, SUVA was admitted as an associate member of the Institute of Chartered Accountants of Caribbean (ICAC). With the help of ICAC and the Royal NBA, SUVA submitted its formal IFAC application on June 1, 2011. IFAC deferred the consideration of SUVA’s application until it has a solid legal framework and adequate capacity to regulate the accountancy profession in Suriname.

27. At present, all SUVA members hold recognized foreign accountancy qualifications, with 80 percent having studied in The Netherlands and registered with the Royal NBA. Some SUVA

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SUVA is registered with the Ministry of Justice and Police as an “Association.” However, it is still not a separate independent body per Surinamese law.
members have their qualifications from the American Institute of Certified Public Accountants (AICPA). Many students are also studying for qualifications under the Association of Chartered Certified Accountants (ACCA) of the United Kingdom, which is quite active in Suriname. SUVA admits as members those candidates having ACCA qualification and permits them to practice as professional accountant in Suriname after presenting documentation of specific knowledge of Suriname’s relevant legislation and taxation laws.

28. SUVA supports and recognizes educational institutions that provide accountancy education by encouraging its members to provide tuition services and practical training at audit firms. In Suriname, the accounting education is provided by several schools, colleges, and universities:

- A private accountancy body\(^{32}\) provides professional qualifications to become a Certified Chartered Accountant, and a professional education program to become a Certified Accounting Technician.
- NIVE Beroepsopleiding (via the Suriname College of Accountancy) offers a post-bachelors program to become a Dutch Qualified Controller and Dutch Qualified Treasurer.\(^{33}\) Anton de Kom, University of Suriname (ADEK), and Hogeschool Inholland offer a bachelors program of accountancy.
- IBW University of Applied Science offers a bachelors program in financial management.

SUVA does not have its own distinct curriculum for professional certification and collaborates with the Suriname College of Accountancy to provide professional education to become a chartered accountant.

29. To develop auditing and accounting standards in Suriname, courses in accountancy institutions of higher learning should focus on teaching IFRS and ISA. Currently, the curricula are mainly restricted to teaching accounting technicalities and basic procedural aspects of auditing. With adequate focus on IFRS and ISA, the students will obtain required exposure to international good practice with regard to accounting and auditing.

30. The academic education in accounting lacks adequate coverage of professional values and ethics. Formal education can significantly sharpen aspiring accountants’ awareness of ethical problems, and can influence their reasoning and judgment with respect to ethical dilemmas. For this reason, IFAC recommends teaching professional ethics separately in the pre-qualifying education of professional accountants.

31. There is no formal requirement to obtain practical auditing experience before practicing as an auditor. The practical training is provided by all seven professional accounting firms in Suriname and also by the Government Audit Bureau (CLAD). SUVA should have a mechanism to screen practical training providers on their suitability to provide appropriate courses, and should monitor the quality of practical training.

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\(^{32}\) The Suriname College of Accountancy.

\(^{33}\) Due to changes in legislation, NBA professional degrees are only allowed to be provided by Dutch educational institutions within the Dutch Jurisdiction. The education contract between the NBA and the Suriname College of Accountancy ends by December 31, 2015.
32. The private education sector provides international programs with certificates and degrees that are recognized abroad. However, these courses and training are deemed expensive for small and medium-size accountancy firms and individuals with an average income. The Suriname Business Development Center recognizes that the available financial and governance training and workshops are costly and that there is a need for more structured and less expensive courses.

33. It is recommended that a Country Action Plan be prepared by the Government drawing on the recommendations of this report. The main text of the report proposes a number of reforms. The Indicative Action Plan immediately below prioritizes the most pressing needs reflected through the prism of existing capacity challenges facing the Government and the profession. With respect to national actions, clearly the PAO (even with ICAC assistance) cannot be the determinative agency, although their advocacy for these items can accelerate their progress. The World Bank is providing support, through an Institutional Development Facility grant for the capacity development of SUVA and the Rekenkamer, and looks for progress on some of the Action Plan items in the next three years.

<table>
<thead>
<tr>
<th>AGREED ACTION PLAN BY THE GOVERNMENT OF SURINAME</th>
<th>Status of Implementation</th>
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<tbody>
<tr>
<td><strong>A. Improving financial governance in parastatals and public enterprises</strong></td>
<td></td>
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<tr>
<td>1.1 Review accounting and auditing practices, and conduct a capacity needs assessment</td>
<td>Research performed in 2010. Update is recommended.</td>
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<tr>
<td>1.2 Capacity development in accounting and auditing</td>
<td>[To be filled in by Governmental bodies, such as the Supreme Audit Institution.]</td>
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<tr>
<td>1.3 Prepare timely and good quality financial statements</td>
<td>[To be filled in by Governmental bodies, such as the Supreme Audit Institution.]</td>
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<tr>
<td>1.4 Timely audit of financial statements</td>
<td>[To be filled in by Governmental bodies, such as the Supreme Audit Institution.]</td>
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<tr>
<td>1.5 Training of Board and Audit Committee Member.</td>
<td>[To be filled in by Governmental bodies, such as the Supreme Audit Institution.]</td>
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<tr>
<td>1.6 Review of Corporate Governance</td>
<td>[To be filled in by Governmental bodies, such as the Supreme Audit Institution.]</td>
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<tr>
<td>1.7 Strengthening capacity of the Ministry of Finance (SOE Unit).</td>
<td>[To be filled in by Governmental bodies, such as the Supreme Audit Institution.]</td>
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<tr>
<td><strong>B. Setting-up of a National Accountancy Body and Building its Capacity</strong></td>
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<tr>
<td>2.1 Drafting and enactment of an Accountancy Act to establish Suriname Institute of Chartered Accountants (SUVA) as an independent legal entity,</td>
<td>Draft Financial Statement Act has been presented to the Vice President and Cabinet in the second half of 2014.</td>
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</table>
and to adopt the application of IFRS for public interest entities and non-listed large companies, and simplified IFRS for other non-listed companies and medium-size enterprises

2.2 Strengthening Technical Capacity of SUVA – technical staffing and establishing its Secretariat

Permanent funds for Technical staff and secretariat are yet to be obtained.

2.3 Development of Continuing Professional Development (CPD) Program - for both members and students

Research paper will be delivered by April 2015. SUVA already has an annual CPD Training Calendar.

2.4 Setting-up of a SUVA Center – development of physical facility for SUVA

SUVA does not have any land rights and currently rents office space from the National Development Bank.

2.5 Setting-up of a modern library and documentation center


2.6 Development of curriculum at the higher education-level for accountancy education

Research is required to set-up a bachelor degree and master’s degree in accountancy which fully fits the ACCA curriculum, so as to have an effective and efficient educational path for students. This will include accreditation by ACCA and curricula gap analysis of educational institutions that are willing to provide accountancy education.

2.7 Twinning support for SUVA with a professional body of a developed/Regional country

Collaboration agreement for technical assistance from the Institute of Charted Accounts of Trinidad & Tobago (ICATT) was signed in 2010.

2.8 Develop an appropriate independent audit quality review arrangement – Audit Oversight Board under the Ministry of Finance/Central Bank of Suriname

[To be filled in by Governmental bodies, such as the Supreme Audit Institution.]

2.9 Provide further training to the accountants in the public sector on international standards and public financial management

SUVA already has an annual CPD Training Calendar.

C. Improving Regulatory Environment in the Capital Market

3.1 Setting-up of a Securities and Exchange Commission (SEC) by an Act of Parliament

[To be filled in by Governmental bodies, such as the Supreme Audit Institution.]

3.2 Appoint key staff and develop their technical capacity

[To be filled in by Governmental bodies, such as the Supreme Audit Institution.]

3.3 Prepare regulations for regulating the capital market

[To be filled in by Governmental bodies, such as the Supreme Audit Institution.]

D. Strengthening the Capacity of the Central Bank

4.1 Review the capacity needs of the Central Bank (Bank supervision Unit)

[To be filled in by Governmental bodies, such as the Supreme Audit Institution.]

4.2 Provide training for broadening, and strengthening supervision of financial institutions.

[To be filled in by Governmental bodies, such as the Supreme Audit Institution.]

4.3 Conduct general financial review of the financial statements of financial institutions.

[To be filled in by Governmental bodies, such as the Supreme Audit Institution.]

E. Strengthening Audit and Oversight Capacity

5.1 Provide support to Rekenkamer van Suriname (SAI) to implement its Strategic Plan

The World Bank is providing support for the implementation of this item.

5.2 Provide support to the SAI to strengthen its staff capacity

The World Bank is providing support for the implementation of this item.

5.3 Provide support to the SAI conduct financial and performance audit

The World Bank is providing support for the implementation of this item.

5.4 Provide support to CLAD to strengthen its capacity, and support to strengthen internal auditing capacity in the line ministries

[To be filled in by Governmental bodies, such as the Supreme Audit Institution.]
| 5.5 Provide support to the concerned Parliamentary Committee to review the reports submitted by the Rekenkamer (SAI) | [To be filled in by Governmental bodies, such as the Supreme Audit Institution.] |
Annex 10. Limiting Risk and Protecting the Vulnerable: Public Interest Entities

1. Public interest entities (PIEs) draw at least some of their funding from public sources and have—because of the nature of their business or their size or the number of their employees—an impact on a substantial segment of the populace. Unlike most enterprises, PIEs are not defined by their sectoral affiliation or output/product, but rather by their potential for adverse impact, whether systemic or wide-ranging on the populace. Thus a PIE could be in the public sector (e.g., a state-owned enterprise) or private sector, in the field of transport or water supply, a charity or a non-governmental organization, a listed company or not, purely domestic or one with international links. The classic case would be a financial institution that holds assets in a fiduciary capacity for a large number of stakeholders.¹

2. Two relatively recent examples underscore the adverse consequences of inadequate regulation and poor governance of PIEs on the one hand, and appropriate intervention and capacity building on the other. The 2009 collapse of the Colonial Life Insurance Company (Trinidad) Limited (CLICO), the flagship of the parent company CL Financial, brought down the then largest privately-owned conglomerate in the Commonwealth Caribbean (with operations that extended far beyond insurance to include financial services, real estate development, manufacturing, and energy enterprises, with more than 65 subsidiaries spanning more than 30 countries worldwide) and devastated the region. A number of factors precipitated CLICO’s collapse. First, the insurance legislation in Trinidad & Tobago had remained virtually unchanged since its enactment almost three decades earlier, and the Central Bank of Trinidad & Tobago (CBTT) had not significantly updated the regulatory framework governing licensed and registered financial institutions to enhance its regulatory oversight.² Other factors crucial to the collapse and which would have been flagged by a robust regulatory regime were excessive

¹ In the literature, public interest entities are typically “described” as including banks, insurance companies, investment funds, pension funds, listed companies, and large enterprises that meet two of the three following thresholds:

(a) total number of employees exceeding XXXX; (b) total revenue/assets on the balance sheet exceeding XXXX (e.g., Austria, Netherlands); and (c) total turnover exceeding XXXX. The preceding sentence uses “described” as rather than “defined” because many (but not all) advanced economies do not analytically define PIEs (e.g., Australia, Canada, France, Hungary, Japan, Spain, and the US) because of definitional difficulties or concerns over the cost-benefit of including potentially small entities that happen to be of public interest (thus the EU and the International Federation of Accountants refer to entities being of “significant” [emphasis added] public interest). Note that the absence of definition does not mean that the concept of “public interest” is excluded from operational applications of International Federation of Accountants-mandated audit standards or otherwise lawfully mandated standards (e.g., Japan’s CPA law imposes different independence requirements on audits of certain types of entities that are typically included under the rubric of PIEs; while in France rotation requirements extend beyond listed companies to include entities that are often considered as of public interest—this is in line with the EU, which does define PIEs, and whose EC 8th Directive specifically requires the partner rotation requirements be applied to PIE audits). For a further discussion, see the International Ethics Standards Board for Accountants Agenda Paper 3-C, February 2006; the Accounting Professional and Ethical Standards Board (APESB) Technical Staff Paper on Consultation Paper: Proposed Definition of Public Interest Entity for the Code—Summary and Analysis of Key Issues, Channa Wijesinghe and Si-Jia Li, August 11, 2011; and APESB Technical Update 2011/5, “APESB issues amendment to the Definition of Public Interest Entity in APES 110 Code of Ethics for Professional Accountants (issued December 2010), issued December 7, 2011.

² Although regulatory authority for insurance companies and pension funds had been transferred from the Ministry of Finance to CBTT in 2004, at the time of CLICO’s collapse the Central Bank still did not have the authority to conduct on-site supervision, share information with other regulators, or demand the changes in CLICO’s practices.
related-party transactions and substantial high interest rate resource mobilization to finance high-risk illiquid investments.

3. The CLICO-related risk exposure of the Trinidad & Tobago economy, one of the Caribbean’s powerhouses, was 10 percent of GDP; the spillover effects in the wider Caribbean were greater still (17 percent of GDP) and are still being felt five years on.

4. Credit unions are key players in the financial sector of countries that are members of the Organisation of Eastern Caribbean States (OECS), holding deposits for more than half of the working population, and primarily targeting low- and middle-income groups. Although these institutions are the main vehicle of financial inclusion, most local jurisdictions provide little or no regulation, prudential oversight, or customer protection mechanisms. Thus, the savings of economically vulnerable populations are potentially at risk. (Many credit unions do not have external investors who bring financial and/or governance discipline to operations.) While the orientation of credit unions serves populations that may otherwise be excluded from financial services, this is no excuse for weak financial oversight. Recognizing their limited institutional and regulatory capacity as a risk for vulnerable populations, OECS governments, working with the Eastern Caribbean Central Bank (ECCB), initiated regulatory reform of the non-banking financial sector (review of regulatory arrangements, drafting of harmonized legislation, preparation of prudential and financial reporting requirements, development of standards and supervision manuals, and training of regulators and industry professionals). Recognizing the complex technical nature of this sub-sector, and its systemic importance to their societies, the OECS reached out to the Caribbean donor community seeking to leverage its international experience and expertise.

5. In 2008, the World Bank conducted a comprehensive Report on Standards and Codes (ROSC)—assessment of accounting and auditing practices in OECS countries, paying particular attention to the state of the non-banking financial sector. Report recommendations provided a basis for preparation of a $445,000 grant-funded technical assistance project focused on non-banking financial institutions in six OECS countries, implemented through the ECCB, with strategic and technical guidance provided by the regional oversight committee comprising financial sector regulators and technical experts coming from all six OECS countries.

6. At the country-level, joint on-site inspections were conducted in four OECS countries, targeting larger, potentially riskier, credit unions holding significant shares of population deposits. (For some of the visited institutions this was the first-ever on-site inspection.) These interventions provided key insights into sectoral practices, while enabling supervisors from different countries to collaborate and share knowledge as a result of the process’ cross-jurisdictional nature. It also helped OECS authorities assess the systemic risk and tailor mitigating measures (including adjustment of accounting and financial policies, staff training, and a stronger regulatory framework), thus providing much-needed protection and assurance to the OECS population.

7. Also at the OECS level, the project supported development of comprehensive financial regulations and supervision manuals and delivered (jointly with the International Financial Reporting Standards Education Foundation) a comprehensive training program focused on financial and prudential reporting requirements for regulators and industry practitioners. The
project also helped prepare and implement medium-term strategic plans guiding development of oversight and regulatory practices in the non-banking financial sector.

8. The bottom line? The savings of economically vulnerable populations are now more secure, as they reside in institutions with higher standards of accounting and financial reporting and enhanced consumer protection mechanisms, and are overseen by strengthened regulatory entities, which collectively provide an enhanced early warning of systemic risk.