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FINAL REPORT**



**REPORT ON THE OBSERVANCE OF STANDARDS AND CODES  
(ROSC)**

**ACCOUNTING AND AUDITING**

**REPUBLIC OF CONGO**

**March 2010**

**REPORT ON THE OBSERVANCE OF STANDARDS AND CODES (ROSC)**  
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***ACCOUNTING AND AUDITING***

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**SUMMARY OF CONCLUSIONS**

This report evaluates accounting and financial auditing standards and practices in Congo in the private and parapublic sectors, using as benchmarks the International Financial Reporting Standards (IFRS) and the International Standards on Auditing (ISA) and referring to best practices observed internationally in these two domains.

The main purpose of this evaluation is to recommend measures to the Government for the improvement of accounting, financial auditing and financial transparency practices in the private sector and parapublic enterprises in Congo. The development goals associated with these recommendations are: (a) stimulation of private investment and improvement of corporate competitiveness; (b) improved governance in the private market sector and the parapublic sector; and (c) greater integration of the Congolese economy internationally. The main findings of the ROSC Accounting and Auditing Study for Congo are summarized below:

With the adoption of the OHADA Accounting System (SYSCOHADA) as a reference system and the entry into force of the CEMAC regulations concerning the accountancy profession in the early 2000s, Congo has made considerable progress as regards its legal and regulatory framework governing accounting and auditing. However, no national legislation has yet been adopted creating an accounting body composed of accounting professionals and introducing audit standards. Significant improvements must therefore be made to standardize accounting and auditing in order to create a legal and regulatory framework that meets international standards.

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This report was prepared by a World Bank team on the basis of work done in Brazzaville and Pointe-Noire in December 2009. The project team was headed by Mr. Nestor Coffi (Senior Finance Officer, MDTF-N), in collaboration with Mr. Zubaidur Rahman (Program Manager, OPCFM). The team also included Mr. Thierno Mbacké and Mr. Didier Tamba (Consultants), assisted by Josyane Carmen Costa (Team Assistant, AFCCG). The authors wish to thank the Congolese authorities and the representatives of the accountancy profession and of the private sector for their active participation and their support during this study. Publication of this report was authorized by the Ministry of Economy, Finance and Portfolio on July 23, 2010.

## SUMMARY OF CONCLUSIONS (CONTINUED)

The accounting and auditing obligations of businesses and entities in the financial sector are set out in the regulations of the Organization for the Harmonization of Business Law in Africa (OHADA), supplemented by the COBAC rules for banks, the CIMA code for insurance companies, and CIPRES for social security funds. The accounting standards applicable in Congo are those established in the OHADA Accounting System (SYSCOHADA). Exercise of the profession of accountant is regulated by the CEMAC authorities in the zone, but no legal or regulatory text has been adopted to organize the profession or to establish auditing standards in Congo. The OHADA regulatory texts concerning accounting standards, most of which have been in existence for over a decade, have evolved very little since their entry into force because the national and community structures responsible for adapting them to changes in the accounting, economic, and legal environment have not been functioning.

Statutory auditing of financial statements (by an independent auditor) is compulsory for all joint stock companies, limited liability companies of a certain size, companies with a public majority holding, banks and insurance companies. This reflects international practice, especially in countries with a written law tradition. However, the main problem seems to be the failure of a number of businesses to meet their obligation to submit audited accounts and the lack of monitoring arrangements which would oblige them to conform.

Under the SYSCOHADA, small and medium-sized enterprises (SME) and very small enterprises (VSE) are allowed to apply simplified accounting rules with so-called simplified systems and a “minimal cash basis.” Such businesses are allowed to participate in an Approved Management Centre (*Centre de Gestion Agréé (CGA)*) in Congo, for example in the area of Pointe-Noire, such as exist in certain comparable countries. The pilot experiment conducted in that city, spearheaded by APNI and APC, should be strengthened and expanded by the authorities through an arrangement for statutory SME supervision.

The OHADA regulations specify that businesses must submit their annual financial statements to the office of the clerk of court, but this system is not working because of the lack of resources. In fact, summary financial statements are not submitted to that office and there is no penalty for non-compliance. There is a plan to create a Central Accounts Archive in the General Tax Directorate (*Direction Générale des Impôts – DGI*) and, more importantly, in the BEAC but it has not yet been put into effect. The existence of a Central Accounts Archive in the BEAC would make it possible to compare the financial statements transmitted by the DGI and those submitted by the banks under classification agreements and would thus effectively highlight the regrettable multiplicity of business accounts. Overall, the general level of financial transparency in the private sector in Congo can be considered to be poor. Banks regret the lack of reliable information on the financial situation of their clients (especially SMEs), and businesses complain about heavy taxation.

Since 1970, the accountancy profession in Congo has been organized through the CEMAC regulations. However, no national legislation has been adopted for the creation of an accounting body. Since 1989, there has been an Association of Accounting Professionals (*Association des Professionnels de la Comptabilité – APC*), composed of the principal accountants in Congo. This Association does not have the features of an accounting body, particularly as regards discipline and quality control, and in recent years it has concentrated on improving its members’ skills with FIDEF help for the organization of training seminars. It should be noted, however, that the APC structures have not been operational for several years. There are no national auditing standards, and the legal and regulatory framework needs improvement in order to enhance the profession’s credibility in Congo.

The Congolese State is a strategic economic agent that participates in the creation and management of public corporations and companies with majority public participation and who occupy an important place in the country’s economy. Several key sectors are concerned, including: (i) oil; (ii) port infrastructures; (iii) banks; (iv) railways; and (v) public works. The State participates in the management of these bodies through Management Committees, which formulate policy, take management decisions and monitor and evaluate performance. The National Independent Auditor (*Commissariat National aux Comptes – CNC*) in the Office of the President of the Republic currently supervises the accounts of these bodies. Their financial statements are not available to the public.

## SUMMARY OF CONCLUSIONS (continued)

As far as academic training is concerned, there are no courses leading to an accounting degree complying with the IFAC principles on this subject. A number of private schools in Congo provide accountancy training, mostly preparing for the BTS, which is not yet a national diploma. Only a few private schools prepare students for bachelor's or master's degrees or for the French accounting examinations. One of the major weaknesses of the Congolese education system is that the State has practically no control over the quality of the education provided by these schools, who train thousands of young people. Management and accounting studies at the Brazzaville Marien Ngouabi Public University are still inadequate. Consequently, in connection with the adoption of the LMD (*License-Master-Doctorat*) System, it is planned in the next academic year to offer a Master's in Accounting and Auditing at this public university. The quality of training for the accountancy professions is thus found to fall far short of international standards and the expectations of the private sector, which needs qualified accountants at all levels. For this reason, many young Congolese go to countries such as Morocco, Côte d'Ivoire and Senegal for their university studies.

The OHADA Accounting System, currently in force in 16 countries including Congo, is experiencing difficulties with the operation of its standardization bodies. However, measures are being taken to revitalize the standardization process, with the creation of the OHADA Accounting Standardization Commission in 2008. No such commission exists in Congo, although the country has two representatives, including one accountant, in the OHADA Commission.

In addition, following a review of a sample of financial statements in Brazzaville and Pointe-Noire, the ROSC Accounting and Auditing Study found that SYSCOHADA was not being properly followed and that the standard of reporting in the notes to the financial statements was very inadequate, particularly as regards the accounting principles and methods applied. SYSCOHADA needs to be amended so as to remedy the shortcomings noted and to move gradually closer to IFRS standards.

On the basis of these findings, the ROSC team made recommendations for improvement of the legal and institutional framework by: (i) adoption of a law creating an *Ordre des Experts Comptables Agréés* in accordance with the CEMAC provisions; (ii) alignment of SYSCOHADA with the IFRS; (iii) adoption of professional standards and quality control within the accountancy profession in the CEMAC zone; (iv) upgrading of professionals' ability to apply the IFRS and the ISA; and (v) introduction of accountancy training in the CEMAC zone.

The priority recommendations from the ROSC Accounting and Auditing Study in Congo are summarized in the following table, distinguishing between actions requiring decisions at the national level and those within the purview of the Community.

SUMMARY OF PRIORITY RECOMMENDATIONS						
Actions	§ No.	Responsibility	Link with WB projects	Implementation schedule		
				Short term (1-2 years)	Medium term (3-4 years)	Long term (5-7 years)
<b>A) ACTIONS MAINLY WITHIN THE PURVIEW OF THE COMMUNITY</b>						
<b>1. ACCOUNTING STANDARDS</b>						
Update SYSCOHADA and persuade stakeholders to update the sectoral charts of accounts of banks, insurance companies and social security funds to align them with international standards, gradually and over a reasonable time period.	62 63	CNC-OHADA CEMAC COBAC CIMA CIPRES	None	X	X	
<b>2. EDUCATION AND PROFESSIONAL TRAINING</b>						
Introduce a <i>Diplôme d'études comptables</i> in the CEMAC zone, modeled on the <i>Diplôme d'études comptables et financiers (DECOFI)</i> existing in WAEMU member countries	73	CEMAC	None		X	
<b>3. ACCOUNTANCY PROFESSION AND PROFESSIONAL STANDARDS</b>						
Put in place a system for monitoring exercise of the profession, designed to ensure the quality of accounting and auditing work and observance of ethical rules within the profession in the CEMAC zone.	68	CEMAC	None			X

Congo – ROSC Accounting and Auditing – Summary of conclusions

SUMMARY OF PRIORITY RECOMMENDATIONS (CONTINUED)						
Actions	§ No.	Responsibility	Link with WB projects	Implementation schedule		
				Short term (1-2 years)	Medium term (3-4 years)	Long term (5-7 years)
<b>A) ACTIONS MAINLY WITHIN THE PURVIEW OF THE COMMUNITY (CONTINUED)</b>						
Embark on the process of aligning auditing practices in the region with international auditing standards: <ul style="list-style-type: none"> <li>• Adoption of the French version of the ISA standards as regional standards, incorporating additional provisions required by OHADA accounting law on commercial companies;</li> <li>• Drafting of an auditing handbook describing the approach, methodology and method of record-keeping as required by IFAC;</li> <li>• Adoption of a regional code of ethics.</li> </ul>	66 69	CEMAC	None		X	

Congo – ROSC Accounting and Auditing – Summary of conclusions

SUMMARY OF PRIORITY RECOMMENDATIONS (CONTINUED)						
Actions	§ No.	Responsibility	Link with WB projects	Implementation schedule		
				Short term (1-2 years)	Medium term (3-4 years)	Long term (5-7 years)
<b>B) ACTIONS TO BE TAKEN MAINLY AT THE NATIONAL LEVEL</b>						
<b>1. ACCOUNTING STANDARDS</b>						
Involve country stakeholders in the creation of a National Accounting Commission ( <i>Commission nationale de la Comptabilité – CNC</i> ) to evaluate application of the SYSCOHADA, make proposals to the OHADA CNC, and implement its recommendations.	61	Congolese Government APC	None	X		
<b>2. ACCOUNTANCY AND PROFESSIONAL STANDARDS</b>						
Enact legislation to create an accounting body for all accounting professionals in Congo, so as to unify the profession and combat its illegal exercise.	65 70	Government APC	Project of private sector support (in preparation)	X		
Improve monitoring of financial reporting by businesses by requiring that an affidavit from a member of the accountancy profession accompany financial statements submitted to the tax authorities.	74	Government Private sector APC	None		X	
Adopt the French version of the ISA standards as national auditing standards, taking into consideration the OHADA regulatory context, and prepare regulations for the application of these standards in Congo.	67	Government APC	IDF grant (planned)	X		

**SUMMARY OF PRIORITY RECOMMENDATIONS (CONTINUED)**

Actions	§ No.	Responsibility	Link with WB projects	Implementation schedule		
				Short term (1-2 years)	Medium term (3-4 years)	Long term (5-7 years)
<b>B) ACTIONS TO BE TAKEN MAINLY AT THE NATIONAL LEVEL (CONTINUED)</b>						
Set up a system of controls to guarantee the quality of accounting and auditing work and observance of ethical rules within the profession: creation within each audit firm of an internal quality control system, and creation of a quality control commission within the accounting body to be created.	68	Accounting Body	IDF grant (planned)		X	
<b>3. EDUCATION AND TRAINING</b>						
Introduce a plan for compulsory, ongoing professional training for members of the profession within the APC or the accounting body to be created in accordance with IFAC standards.	71	APC or Accounting Body	World Bank grant (IDF grant planned)	X		
Introduce a national BTS and a legal mechanism for the accreditation and monitoring of management and accounting schools. Revise the curriculum so that in the medium term, students are better prepared and a larger number of qualified accountants are trained. Involve stakeholders in the creation of an Accountancy Institute in Congo.	72 73	Government APC CEMAC Universities Association of management schools	None	X	X	

<b>SUMMARY OF PRIORITY RECOMMENDATIONS (CONCLUDED)</b>						
<b>Actions</b>	<b>§ No.</b>	<b>Responsibility</b>	<b>Link with WB projects</b>	<b>Implementation schedule</b>		
				<b>Short term (1-2 years)</b>	<b>Medium term (3-4 years)</b>	<b>Long term (5-7 years)</b>
<b>B) ACTIONS TO BE TAKEN MAINLY AT THE NATIONAL LEVEL (CONCLUDED)</b>						
<b>4. ACCESSIBILITY OF FINANCIAL AND ACCOUNTING DATA</b>						
Provide the necessary material and human resources to the office of the clerk of the court so that financial statements can be compiled and consulted and a system of electronic archiving can be introduced.	75	Government	None	X	X	
Adopt legislation creating AMCs to provide accounting assistance to VSE, using a system of tax incentives and technical assistance with legal, tax, and accounting questions.	64	Government	None	X	X	
Involve stakeholders in the creation of a Central Accounts Archive in the General Tax Directorate or the BEAC.	74	Government BEAC	None	X	X	
Redefine the responsibilities of the National Independent Auditor for monitoring public enterprises, establish a Directorate of State Portfolio within the Finance Ministry, and expand the role of the Audit Office.	76	Government	None	X	X	
Formalize the creation of a steering committee to develop an action plan for ROSC reforms.	77	Government	None	X	X	X

**CURRENCY: CFA FRANC (CFAF)**  
**Exchange rate: US\$1 = CFAF474 as at December 31, 2008**

**ACRONYMS AND ABBREVIATIONS**

AGM	Annual General Meeting
AMC	Approved Management Center
APC-CONGO	<i>Association des Professionnels de la Comptabilité –Congo</i> (Association of Accounting Professionals – Congo)
APNI	<i>Association Pointe-Noire Industrielle</i> (Pointe-Noire Industrial Association)
BEAC	<i>Banque des Etats de l’Afrique Centrale</i> (Bank of Central African States)
BTS	<i>Brevet de Technicien Supérieur</i> (Higher Technical Certificate)
BVMAC	<i>Bourse des Valeurs Mobilières de l’Afrique Centrale</i> (Central African Stock Exchange)
CACI	Chart of Accounts for Credit Institutions
CEMAC	<i>Communauté Economique et Monétaire de l’Afrique Centrale</i> (Central African Economic and Monetary Community)
CIMA	<i>Conférence Interafricaine des Marchés d’Assurances</i> (Inter-African Conference of Insurance Markets)
CIPRES	<i>Conférence Interafricaine de la Prévoyance Sociale</i> (Inter-African Conference on Social Security)
COBAC	<i>Commission Bancaire de l’Afrique Centrale</i> (Central African Banking Commission)
COSUMAF	<i>Commission de surveillance du Marché Financier de l’Afrique Centrale</i> (Central African Financial Market Supervisory Commission)
CRCA	<i>Commission Régionale de Contrôle des Assurances</i> (Regional Commission for Insurance Supervision)
EIG	Economic Interest Group
FIDEF	<i>Fédération Internationale des Experts-Comptables Francophones</i> (International Federation of French-Speaking Accountants)
GCA	General Chart of Accounts
GDP	Gross domestic product
GTD	General Tax Directorate
IAS	International Accounting Standards
IASB/IASC	International Accounting Standards Board/Committee
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standards
ISA	International Standards on Auditing
JSC	Joint stock company
LLC	Limited liability company
OHADA	Organization for the Harmonization of Business Law in Africa

ROSC	Report on the Observance of Standards and Codes
SME	Small and medium-sized enterprises
SMO	Statement of membership obligations, IFAC
SYSCOHADA	OHADA Accounting System
UDEAC	<i>Union Douanière et Economique de l'Afrique Centrale</i> (Central African Customs and Economic Union)
UEAC	<i>Union Economique de l'Afrique Centrale</i> (Central African Economic Union)
UMAC	<i>Union Monétaire de l'Afrique Centrale</i> (Central African Monetary Union)
UNCTAD	United Nations Conference on Trade and Development
UREC	<i>Union pour la Reconstruction du Congo</i> (Union for the Reconstruction of Congo)
VSE	Very small enterprises
WAEMU	West African Economic and Monetary Union

## I. ECONOMIC CONTEXT

1. Accounting and auditing standards and practices in Congo are evaluated in ROSC,<sup>1</sup> a joint initiative of the World Bank and the International Monetary Fund (IMF). This evaluation focuses on the strengths and weaknesses of the accounting and auditing environment influencing the quality of published financial reports. It involves a review not only of legal obligations but also of practices observed in Congo and uses as benchmarks the IFRS,<sup>2</sup> the ISA,<sup>3</sup> and best practices commonly observed internationally in the area of accounting and auditing regulation.

2. **Covering an area of about 342,000 km<sup>2</sup> and with a population estimated at 3.9 million, giving an average density of 10 inhabitants per km<sup>2</sup>, the Republic of Congo is a Central African country situated on the Equator.** Its population consists mainly of young people (over 45 percent) and over half of the population lives in urban areas. During the 1990s, Congo experienced many socio-political upheavals and armed conflicts, which have had disastrous consequences for the national economy. In 1999, the country entered a post-conflict period and with support from the development partners, particularly the IMF and the World Bank, efforts were made to improve the economic environment and encourage private initiative. For example, Congo concluded a three-year program with the IMF covering the period 2003-2007 under the Poverty Reduction and Growth Facility (PRGF).

3. **Since peace was restored, the Congolese economy has experienced positive real GDP growth, thanks to the dynamic oil and timber sectors and to exports of construction and public works, transport, telecommunications, and other services.** Growth increased from 3.5 percent in 2004 to 5.6 percent in 2008 and, according to official projections, would reach 9.5 percent in 2009. In addition to access to financial assistance, the agreement with development partners provided an opportunity to embark on structural reforms to stabilize the macro-economic framework and to restructure growth-producing sectors of activity. Adoption of the interim PRSP by the Government in 2004 enabled Congo to reach the decision point under the Heavily Indebted Poor Countries (HIPC) Initiative. However, budgetary slippages prevented it from reaching the HIPC completion point. Eventually, the efforts made from 2007 to the end of 2009, including adoption of the final PRSP, resulted in attainment of the HIPC completion point during 2010 and opened the way to a reduction of Congo's external debt, estimated at about 5 billion U.S. dollars.

4. **The Congolese economy is characterized by the juxtaposition of two sectors, with a central economic hub in the Pointe-Noire zone.** One is a modern, competitive and export-oriented sector, consisting of oil activities in the Pointe-Noire zone, which account for 66 percent of GDP, 75 percent of tax revenue and 85 percent of exports. The other sector consists of traditional farming, local processing, and services that are informal to varying degrees. Congo is rich in natural resources. The areas with considerable potential are forestry, agriculture and livestock, fishing, and mining and hydrocarbons. In the secondary sector, there are also many sectors with growth potential: the agro-food industry, the timber industry, the construction materials industry, the metallurgical and metal industry, and the chemical and petroleum derivatives industry.

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<sup>1</sup> Reports on the Observance of Standards and Codes (<http://www.worldbank.org/ifa>).

<sup>2</sup> International Financial Reporting Standards. The term covers both the International Accounting Standards (IAS) previously issued by the International Accounting Standards Committee (IASC) (which in 2001 became the International Accounting Standards Board or IASB), and the standards issued since 2001 by IASB. A number of countries have adopted the IFRS as compulsory accounting standards for the preparation of companies' required annual financial statements. Since January 1, 2005, the European Union (EU) requires all companies with headquarters in the EU to comply with the IFRS when submitting their consolidated financial statements.

<sup>3</sup> International Standards on Auditing issued by an independent body within the International Federation of Accountants (IFAC). The official English version of the ISA may be consulted without charge on the IFAC website (<http://www.ifac.org>).

**5. Another focus of the country's current economic policy concerns revitalization of the private sector, to make it the main engine of growth.** For three decades (1960-1990), Congo had a policy of centralized planning in which the State wielded major control over economic activity (grant of monopolies, price-setting, creation of public corporations, etc.). In the first place, this policy introduced major distortions into the incentive structure by discouraging national private initiative; secondly, it paid little attention to improving the capacity of private sector support structures, particularly for small and medium-sized enterprises (SME/SMI).<sup>4</sup> This was the context in which the Government's 2008-2010 PRSP emphasizes development of the private sector via its second pillar, promoting macro-economic growth and stability. The general objective is to revitalize the sector and promote private investment by increasing the potential to attract foreign direct investment. The Government is working to improve the legal and regulatory framework for business (operation of commercial courts, creation of an Arbitration Chamber, etc.) and to make Congo more attractive to private investors. The commercial private sector consists mainly of small and medium-sized enterprises (SME), concentrated in the Brazzaville and Pointe-Noire areas.

**6. The Congolese State is a major economic player in many key sectors of the economy.** In December 2009, the Government portfolio consisted of 15 public companies and establishments. Several key sectors are concerned, the most important being : (i) oil, with the *Société Nationale des Pétroles du Congo* (SNPC); and (ii) port infrastructure, with the Pointe Noire Autonomous Port and the Brazzaville Autonomous Port. The State is also a strategic economic agent with holdings in other companies in various sectors, such as: (i) construction and public works; (ii) urban water supply; (iii) electricity; and (iv) railways. The State is involved in these companies through technical supervision by Ministries, Management Committees and directors. However, the Ministry of Economy and Finance, which is responsible for the portfolio, does not currently have a unit managing the State's financial participation.

**7. The financial sector in Congo underwent major restructuring in the early 2000s.** Risky lending and misappropriation by banks, as well as damage caused by the two wars, created a major crisis in the financial sector in the 1990s. Accordingly, the State engaged in far-reaching restructuring in 1993 and 2004-2006, which cleaned up the sector and altered the banking configuration, particularly as regards share ownership. As at December 31, 2009, the banking sector consists of six (6) commercial banks with total assets of CFAF 711 billion (or about US\$1.5 billion). With the exception of the Congolese Housing Bank, all the other banks are subsidiaries of international groups. Their short-term resources (deposits) and medium-term resources (own funds) show large surpluses, and there is considerable potential for financing the economy. Lastly, the financial system is also characterized by a low rate of bankarization of individuals. The Central African Stock Exchange (*Bourse des Valeurs Mobilières de l'Afrique Centrale- BVMAC*), with headquarters in Libreville, does not list any Congolese companies. In August 2008, BVMAC officially launched its listing activities on the CEMAC Financial Market but it is facing competition from the Douala Stock Exchange. Apparently, the CEMAC authorities recently decided that the Libreville and Douala exchanges would eventually be merged. The micro-finance sector is not yet highly developed in Congo. In the first half of 2009, there were 63<sup>5</sup> micro-finance institutions, with outstanding loans of about CFAF 27 billion. In comparison, as at September 30, 2009, Togo had 76 credit unions or savings and loan cooperatives with deposits estimated at CFAF 74 billion (US\$154.4 million) and outstanding loans of CFAF 63 million (US\$131 million).

**8. The insurance sector is undergoing restructuring, because the main public insurance company, *Assurances et Réassurances du Congo* (ARC), is experiencing serious difficulties.**

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<sup>4</sup> In 1986, the Congolese authorities had decided to give priority to the private sector in general and to SME/SMI in particular in the economic and social structure, and Law No. 019/86 of July 31, 1986 created a new institutional framework to promote SME/SMI. This institutional arrangement was not as effective as had been expected. Its design was very bureaucratic and in fact it never had any operational impact.

<sup>5</sup> The main network consists of the Congolese Savings and Credit Unions (*Mutuelles Congolaises d'Epargne et de Crédit - MUCODEC*), with 35 branches and 230,000 members in 2008 and total deposits of CFAF 93 billion, or about 87 percent of total deposits with micro-finance institutions. MUCODEC loans totaled about CFAF 30 billion in 2008.

There are five (5) insurance companies in Congo: three insurance companies registered with the Investment Adviser Registration Depository (IARD) account for 99 percent of insurance activity, and two life insurance companies account for 1 per cent of such activity. One of the insurance companies (ARC) is public and deals mainly with insurance of oil activities, which provided business amounting to CFAF 15 billion in 2007, or almost 57 percent of the sector turnover. The sector had a turnover of CFAF 26 billion (US\$55 million) as at December 31, 2007, including CFAF 250 million for life insurance. Compared with most of the countries following the CIMA code, the insurance sector in Congo is still relatively small.

**9. Regional integration is one of the pillars of Congo's development strategy.** Because of its geographical location, Congo is particularly interested in regional integration for purposes of trading with other countries. The main vehicle for this integration is currently the Central African Economic and Monetary Community (CEMAC),<sup>6</sup> consisting of six countries (Cameroon, Gabon, Chad, Equatorial Guinea, the Central African Republic, and Congo-Brazzaville) with over 30 million consumers. There is effective financial integration within CEMAC, which has a single currency, the CFA franc, pegged to the euro, and joint institutions such as the Central African Economic Union (UEAC), the Central African Monetary Union (UMAC), the Bank of Central African States (BEAC), which is the currency issuing agency, and the Central African Banking Commission (COBAC), which is responsible for supervising credit institutions. Congo is also a member of the Economic Community of Central African States (ECCAS), consisting of ten States in the sub-region (the CEMAC countries plus Angola, the Democratic Republic of Congo, Burundi, and São Tomé and Príncipe) with over 100 million inhabitants, providing a larger export market on favorable terms set out in the regional integration agreements. Congo also belongs to the Organization for the Harmonization of Business Law in Africa (OHADA), which has developed a common legislation on business law. Lastly, in the insurance sector, Congo has acceded to a convention establishing uniform rules for the whole of French-speaking Africa (CIMA).

**10. Improvement of the quality, reliability and accessibility of accounting and financial reporting in the private sector is to be achieved as part of Congo's economic development strategy, in several ways:**

- ***Improvement of the investment climate, in order to stimulate investment and make Congolese businesses more competitive.*** Accounting reporting that is reliable and accessible to investors, bankers and other economic agents in general would bolster investor confidence and facilitate banking intermediation and mobilization of budget savings, giving businesses easier access to capital, including bank loans.
- ***Better governance in the private and parapublic sector.*** Improved accounting and auditing practices would achieve greater financial transparency in the business sector, making it more difficult to conceal illegal operations, and would provide better protection to shareholders, creditors and wage-earners. Greater transparency would also result in fairer competition among enterprises with private status (including parapublic enterprises).
- ***Expanded economic cooperation at the subregional and international levels.*** The adoption and enforcement of common accounting and auditing rules and practices would facilitate economic and financial exchanges between Congo and its partners, including within the CEMAC and CEEAC zones.

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<sup>6</sup> Treaty of March 16, 1996 establishing CEMAC, and its Addendum dated July 5, 1996.

## II. LEGAL AND INSTITUTIONAL FRAMEWORK

### A. Accounting and auditing legislation and regularization.

**11. As is the case in the other OHADA member States, the obligations concerning accounting, submission of accounts and statutory auditing (external audit) of the accounts of businesses in Congo are set out in two OHADA Uniform Acts (UA).<sup>7</sup>** The need for uniform and homogeneous accounting practices in the OHADA environment and for more reliable financial reporting to third parties led to the adoption of a single common accounting system in the States parties. The accounting system described in these two UAs applies to undertakings governed by commercial law, parapublic and semipublic undertakings and cooperatives. Annual financial statements must be prepared within four months of the end of the financial year, which coincides with the end of the calendar year, December 31. In addition, the inventory, the summary financial statements and the audit report, if any, must also be made available to shareholders two weeks before the annual general meeting. Penalties are applicable to chief executives who fail to prepare the inventory and annual financial statements.

**12. The OHADA Accounting System (SYSCOHADA) specifies the procedure for preparing enterprise accounts and financial statements.** SYSCOHADA covers individual accounts (or personal accounts, to use its terminology) of enterprises and consolidated and combined accounts. One interesting feature of SYSCOHADA is that it has three levels of compliance, depending on the size of the undertaking:

- The “normal system” for the submission of financial statements and the keeping of accounts is the highest compliance level. The normal system, described in article 26 of the UA, consists of preparation of the balance sheet, the profit and loss statement for the financial year, the financial table of sources and allocation of funds for the year, and notes to the financial statements.
- The optional “simplified system” described in article 27 of the UA may be used by undertakings with an annual turnover of less than CFAF 100 million (or about US\$200,000). This system consists of preparation of a balance sheet, a profit and loss account for the year and notes to the financial statements “simplified as indicated in the OHADA Accounting System”;
- The “minimal cash-basis system” is reserved for very small enterprises (VSE). It provides for very simplified accounting, suited to VSE, showing income and expenditure.

**13. As regards groups of undertakings, the SYSCOHADA regulations require groups which exceed a certain size in two consecutive years to prepare consolidated financial statements.** The criteria for determining the size of the group are consolidated turnover and average total staffing. This obligation to prepare consolidated accounts also applies to joint stock companies issuing a public offering. In practice, observers find that very few undertakings prepare consolidated or combined accounts. Only the subsidiaries of large groups submit consolidated accounts for reporting purposes. It should be noted, however, that no penalty is provided by law for failure to produce consolidated or combined accounts.

**14. Statutory auditing of annual accounts is required for all joint stock companies (JSC) and limited liability companies (LLC) with a share capital of over CFAF 10 million, turnover of over CFAF 250 million, or a permanent staff of over 50 employees.** Statutory auditing required by the OHADA Uniform Act is provided by commissioning an auditor to perform an external audit. JSC not issuing a public offering are required to designate an auditor and an alternate. JSC issuing a public

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<sup>7</sup> UA of February 22, 2000, Organizing and Harmonizing Undertakings’ Accounting Systems and UA of April 17, 1997, relating to Commercial Companies and Economic Interest Groups.

offering are required to appoint at least two auditors and two alternates. Auditing functions are regulated by CEMAC<sup>8</sup> but no national rules have been adopted in the Republic of Congo. Thus legislation does exist in the CEMAC zone concerning exercise of the profession of *expert comptable* and auditor by individuals or companies. Auditors are appointed by the annual general meeting for a period of two financial years when the company is set up, and for six financial years during their lifetime for JSC and three financial years for LLC meeting the requirements.

**15. Financial statements must be submitted to the tax authorities no later than four months after year-end.** The provisions of the General Tax Code applicable in Congo concerning corporate income tax comply with CEMAC Directive No. 02/01UEAC-050-CM-06 revising Act No. 3/72-153-UDEAC of December 22, 1972 creating the corporate income tax. Articles 30 and 31 of the Code describe corporate obligations regarding account keeping and annual financial statements. The Code also contains simplified provisions concerning income and expenditure accounting for businesses with a turnover of less than CFAF 100 million. There is as yet no central archive of balance sheets in Congo but the General Tax Directorate and the BEAC are considering creating one.

**16. JSC are required to submit financial statements to the tax authorities.** The UA of April 17, 1997 relating to Commercial Companies and Economic Interest Groups specifies that joint stock companies are required to deposit summary financial statements with the office of the clerk of the court, within one month following their approval by the general meeting of shareholders (article 269). In practice, this obligation is not currently enforced in Congo because the regulations do not set penalties but mainly because the clerks' offices are disorganized and ill-equipped.

**17. Banks and financial institutions and insurance companies are not governed by SYSCOHADA. Article 5 of the Accounting System exempts these two sectors of activity, which are governed by sector-specific accounting standards.** Standards for banks and financial institutions are established by the UMAC and COBAC authorities. The rules are contained in the convention adopted by the UMAC Ministerial Committee on January 17, 1992 to harmonize banking regulations in the Central African States, in the Chart of Accounts for Credit Institutions that has been compulsory since 1999<sup>9</sup> and, lastly, in the COBAC "Prudential Arrangements."<sup>10</sup> Banks and financial institutions must finalize their accounts as at December 31 each year and transmit them to the monetary authorities (BEAC and COBAC) before June 30 the following year. On April 1, 2009, the Central African Banking Commission raised the minimum capital requirement to CFAF 10 billion for banks and to CFAF 2 billion for financial institutions, with a grace period ending in 2014.<sup>11</sup> In addition, in 2002, the BEAC established accounting and regulatory arrangements for microfinance institutions using the Chart of Accounts for Microfinance Institutions.

**18. Banks and financial institutions are externally audited at two levels: certification of the financial statements of banks and financial institutions by one or more duly authorized auditors,<sup>12</sup> and upgrading of external audits with right of inspection by the Banking Commission.** Banks and financial institutions are required to appoint one or more auditors (one auditor and one alternate). Article 8 of the Annex to the Convention establishing the Central African Banking Commission states that the appointment of auditors is subject to prior approval by the

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<sup>8</sup> Regulation No. 11/01-UEAC-027-CM-07 of December 5, 2001, amending the status of independent accounting professionals.

<sup>9</sup> COBAC Regulation No. R 98/01 of February 15, 1998, concerning the Chart of Accounts for Credit Institutions.

<sup>10</sup> Created by the Convention of the UMAC Ministerial Committee of January 16, 1990, creating the *Commission Bancaire de l'Afrique Centrale* (Central African Banking Commission).

<sup>11</sup> This measure, together with many others, should give banks more stable resources and enable them to offer financing better suited to the private sector.

<sup>12</sup> In accordance with article 19 of the annex to the Convention harmonizing banking regulations in the Central African States, the operations of credit institutions are audited by at least two auditors approved in the manner specified in article 20. In the manner established by the regulations governing the profession, auditors certify the annual accounts, verifying and certifying the accuracy and honesty of the information to be given to the public.

Commission. Proposals to appoint or dismiss auditors by the annual general meeting must be notified to the Secretary-General of the Commission. The duration of auditors' appointments is governed by the rules of ordinary law. Auditors submit a report<sup>13</sup> to the annual general meeting each year certifying that the annual accounts have been prepared regularly and honestly.

**19. The preparation, publication and auditing of the financial statements of insurance companies are governed by the Code of the Inter-African Conference of Insurance Markets (CIMA Code).**<sup>14</sup> Insurance companies are required to transmit the financial statements<sup>15</sup> and the report of the Board of Directors to the Regional Commission for Insurance Supervision and the Insurance Department of the Finance Ministry of the member country before August 1 the following year. The auditor's appointment does not require the approval of the Regional Commission, whereas in the banking sector the approval of the Banking Commission is required. In practice, insurance companies inform the Regional Commission. Appointment of the auditor is the specific responsibility of the general meeting of insurance companies, which appoints one or more auditors for six years.

**20. No Congolese companies are listed on the Central African Stock Exchange (BVMAC) or with the regional supervisory and regulatory authority (COSUMAF).** Companies with own capital exceeding CFAF 500 million for tier A, and CFAF 200 million for tier B (SME-SMI), which wish to sell shares on the stock exchange must comply with financial reporting obligations concerning the presentation of certified financial statements for the last two complete years. Listed companies must also appoint two auditors. The obligations concerning periodic reporting to the market and the supervisory bodies by issuers are established in the BVMAC General Regulations. They require, in particular, publication of six-monthly and annual statements in the *Bulletin Officiel de la Cote*, or in a journal of legal announcements.

**21. Statutory arrangements have not yet been adopted in Congo for the creation of Approved Management Centers (AMC) to assist and supervise small and medium-size enterprises (SME) and very small enterprises (VSE) in the areas of management and accounting.** At the initiative of the *Association Pointe-Noire Industrielle* (APNI) consisting of private sector stakeholders, two Centers were created in Pointe-Noire, by a memorandum of agreement signed in 2004 between APNI and APC. These pilot centers have been in operation since 2005 and cover on average about 25 SME. The main goal is to guide informal sector SME into the formal sector. The private sector stakeholders interviewed during this ROSC study emphasized the advantages of this arrangement for SME in Congo. Indeed, draft legislation has been submitted to the Government by APNI and the Pointe-Noire Chamber of Commerce to promote the development of SME in Congo.

**22. Supervision of State-owned companies and companies in the public and parapublic sector in Congo is provided by four institutions with an important role: the National Independent Auditor (CNC), the Audit and Budgetary Discipline Office (CCDB), the General State Inspectorate (IGE), and the General Finance Inspectorate (IGF).** Their activities cover the central authorities, public national establishments, State-owned companies, private law corporations receiving financial assistance from the State, local communities and public and parapublic institutions. The National Independent Auditor is a public institution with legal status and financial autonomy. It is governed by Law No. 13/81 on the Charter of State-Owned Enterprises and by organizational and

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<sup>13</sup> In this report, the auditor of the bank or financial institution gives his opinion, inter alia, on the methods and procedure followed in preparing the financial statements and must highlight the salient features. He certifies that the documents which he has verified reflect the situation of the credit institution. He also certifies the auditing measures implemented by the financial institution. The auditor must transmit any document or information that he deems useful to the Banking Commission, which is not bound by professional secrecy.

<sup>14</sup> Treaty of July 10, 1992 (entered into force in 1995) and amendments approved by the Council of Finance Ministers of the Franc Zone (WAEMU and CEMAC). CIMA has its headquarters in Libreville and has 14 members (except for the Comoros and Guinea, all are members of OHADA).

<sup>15</sup> These include the general operating account, the general profit and loss account, the income distribution and allocation account, the balance sheet, and the table of subsidiaries and holdings.

operational decree No. 84/726 of July 27, 1984. It is currently located in the Office of the President of the Republic. Its role is to certify the accounts of State-owned enterprises. The Audit Office is governed by Law No. 19-99 of August 15, 1999 amending and supplementing certain provisions of Law No. 022-92 of August 20, 1992 on the organization of the judiciary. The Audit and Budgetary Discipline Office is empowered to consider the management of the finances and accounts of the State, local communities, public institutions of all kinds, State-owned enterprises, semi-public enterprises, provident and social security organizations, subsidized agencies and in general all bodies with or without the status of legal entity which the law subjects to its jurisdiction and control. The IGF is under the authority of the President of the Republic. Its activities cover public and private accounting. These four structures perform monitoring, auditing, and inspection duties on behalf of the State and their areas of competence are thus diffuse, creating problems of efficiency. The financial viability of certain State-owned companies is also an important problem requiring attention at the level of the State portfolio.

## **B. The accountancy profession in Congo**

**23. There is no accounting body governing accounting and external auditing services in Congo:** exercise of the profession of *expert comptable* in Congo is governed by various CEMAC regulations,<sup>16</sup> but is not entrusted by a national law to an accounting body. As a result, anyone can claim to be an accounting expert and keep books of accounts or be appointed as a company auditor. There is thus a problem of extensive illegal exercise<sup>17</sup> in the Republic of Congo, especially concerning bookkeeping. However, action is being taken by the authorities and professionals to create an accounting body in accordance with the provisions of article 4 of Regulation No. 11/01-UREC-027-CM-07 of December 5, 2001 amending the status of independent accounting professionals. Legislation on the organization of the profession is under consideration in a commission set up by the Ministry of Economy and Finance. It is common international practice to create a professional organization specifically for accountancy; one advantage is that this facilitates contacts with professional organizations in other countries to improve auditing. If Congo is to become a member of IFAC, it will have to comply with the Federation's seven statements of membership obligations.

**24. In view of this situation, accounting professionals approved by the CEMAC authorities formed the Association des Professionnels de la Comptabilité du Congo (APC):** as noted above, *experts comptables* authorized to practice in Congo must be approved by the Council of Ministers of the Central African Economic Union (article 2 of Regulation No. 11/01-UREC-027-CM-07 of December 5, 2001 amending the status of independent accounting professionals). In Congo, seven (7) persons who took the French accountancy training course have been approved as *experts comptables* and three as *comptables agréés* approved by CEMAC.<sup>18</sup> The Community rules also require the approval of accounting firms (four have been approved for Congo) and of court accounting experts. Because there is no national accounting body, professionals created the APC in 1989. This association consists of CEMAC/UDEAC-approved individuals and companies practicing independently or as employees, persons with advanced accountancy diplomas, and accounting professionals approved by the courts and tribunals. Nine (9) of its members work for the large international firms (Big Four). As well as the APC members, there are a number of people practicing illegally in violation of CEMAC

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<sup>16</sup> Act No. 4/70-UDEAC-133 of November 17, 1970 on the status of *experts comptables*; Regulation No. 11/01-UREC-027-CM-07 of December 5, 2001 amending the status of accounting professionals; Decision No. 29/01/UEAC-027-CM-07 of December 5, 2001 establishing the requirements for *comptables agréés* to be classified as *experts comptables*.

<sup>17</sup> Punishable under article 20 of Regulation No. 11/01-UREC-027-CM-07 of December 5, 2001. At the national level, article 390 bis E.4 of the General Tax Code of the Congo states: "Only accountants, *experts comptables*, and tax advisers approved by CEMAC are authorized to assist taxpayers in dealings with the tax authorities, provided that they can produce a certificate of fiscal honesty for the current year."

<sup>18</sup> Two of them have the French *Diplôme d'expertise comptable* (DEC) and the others have the DEC plus advanced accountancy certificates. Two other Congolese *experts comptables* have the French DEC but practice abroad and are not members of the APC.

rules. Accounting professionals in Congo can therefore be divided into three categories: (i) *experts comptables* approved by CEMAC who are members of APC; (ii) *experts agréés* approved by the commercial courts<sup>19</sup> from a list of accountants with legal expertise specializing in accounting or finance; and (iii) numerous persons practicing illegally who provide accounting and auditing services.

**25. This situation regarding providers of accounting and auditing services in the Republic of Congo is not conducive to the development of a strong and credible accountancy profession:** The audit market mainly involves development projects, international NGOs, missions of bank independent auditors, semi-public companies and subsidiaries of foreign companies. No statistics are available on numbers of assignments or fees, but the networks of international firms seem to have the largest share of the market for banks and subsidiaries of foreign groups. The lack of an accounting body is a major obstacle to the development of the accountancy profession in Congo. Existing arrangements do not guarantee the quality of accountancy services, foster public recognition of professional skills, or guarantee ethical behavior by application of ethical rules. The auditing of banks and large private companies continues to be dominated by the big international firms, which do have quality controls.

**26. The APC is governed by the Law on associations of July 29, 1901 and subsequent amendments.** As an association of persons qualified to exercise the profession of *expert comptable* in the Republic of Congo, its main goals are to defend the interests of accounting professionals, to promote the independent exercise of the accountancy profession, to work with the authorities to design training programs and organize professional examinations on accounting, and to make suggestions on the accountancy profession to the authorities. The APC has statutes and bylaws. It has two decision-making organs: the General Assembly and the Bureau. The General Assembly, composed of members who have paid their dues, meets annually. It elects a bureau consisting of the President and four members (Vice-President, Secretary-General, Treasurer and Deputy Treasurer). In practice, the APC organs have not been operational since 2006.

**27. The requirements for designation as CEMAC-approved *experts comptables agréés* are set out in article 3 of Regulation No. 11/01-UREC-027-CM-07 of December 5, 2001 amending the status of independent accounting professionals.** In order to be approved by the UEAC Council of Ministers, applicants must have the nationality of one of the member states, be at least 25 years of age, have good morals and hold the *Diplôme d'expertise comptable* or an equivalent accounting diploma awarded or recognized by the competent authorities of their State (article 3 of the above-mentioned Regulation). Decision No. 29/01/UEAC-027-CM-07 of December 5, 2001 establishing the requirements for *comptables agréés* to be reclassified as *experts comptables* creates a provisional regime for CEMAC *comptables agréés*. Article 4 of the decision specifies a ten-year period, expiring on December 5, 2011, for the reclassification of *comptables agréés*. So far, only three *comptables agréés* out of a list of 20 were reclassified following a CEMAC decision. Action should therefore be taken within the profession, with the support of the authorities, to regularize the situation of *comptables agréés* who wish to become *experts comptables*. In addition to meeting the usual criteria of nationality, age and morals, members of the APC must:

- ✓ Have CEMAC/UEAC approval to work independently;
- ✓ Have CEMAC/UEAC approval to work as an employee;
- ✓ Have an advanced accountancy diploma;
- ✓ Be an accounting professional approved by the courts and tribunals of the Republic;
- ✓ Be sponsored by a member of the Association who undertakes to provide all information needed for acceptance. The Bureau meets to decide on acceptance.

Even if the Community regulations provide for the recruitment of *experts comptables* as interns by *experts comptables agréés*, such internships are not regulated by law.

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<sup>19</sup> The list maintained at the Brazzaville Court indicates that seven *experts comptables* (only one of whom is a member of APC) and four auditors have been approved.

**28. Article 45 of Regulation No. 11/01-UREC-027-CM-07 of December 5, 2001 amending the status of independent accounting professionals requires auditors approved by CEMAC, whether individuals or legal persons, to have civil liability insurance to cover work-related claims.** In practice, this requirement is not respected, particularly by accounting professionals who are not members of the large networks.

**29. The APC is a member of international accountancy organizations such as the *Fédération Internationale des Experts Comptables Francophones (FIDEF)* and the *Fédération Régionale des Réviseurs et Experts Comptables de l'Afrique Centrale (FRECAC)*.** FIDEF is a forum for exchanges and cooperation between bodies representing the accountancy profession in the French-speaking world. Membership in FIDEF basically involves participation in annual meetings and regular exchanges. With FIDEF support, the APC was able to organize some training activities on international standards. The goal of FRECAC is to promote the development and coordination of the accountancy profession in the Central Africa subregion. It was created in November 2008 by the accounting body of Cameroon, the Central African Republic, Congo, Gabon and the Republic of Congo, represented by the APC.

### **C. Education and professional training**

**30. Higher education in finance and accounting in Congo is marked by a reform process now under way, and by the existence of numerous private schools with no State oversight.** The political crises of the 1990s, growth in the number of students, and inadequate infrastructure have had a negative impact on the quality of education in Congo. Higher education in Congo is governed by School Law 008-90 of September 6, 1990 establishing the organizational structure of the education system, amended by Law 25-95 of September 17, 1995. This law governs the entire education system but does not address certain aspects of the supervision of higher education in Congo, thus resulting in a number of problems such as the proliferation of private schools of advanced studies with no rigorous system of accreditation to ensure adherence to educational standards, no oversight of the quality of programs and their implementation, and no oversight of how exams are organized.

**31. The main university of the Republic of Congo is the University of Brazzaville, which became Marien Nguabi University in 1977. The University's Institute of Advanced Studies in Management (*Institut Supérieur de Gestion - ISG*) provides training in accounting and financial management.** ISG trains midlevel managers at the BAC+2 (DUTS ex BTS) and BAC+3 (bachelor's degree) levels, in the two following tracks: financial and accounting management, and marketing. The ISG's plan is to organize a master's degree in auditing for the next school year. Analysis of the training curriculum for the DUTS or bachelor's degree in accounting shows the inadequacy of courses with a heavy financial or accounting focus. The number of students is also limited, and does not appear to meet appropriately the level of demand from businesses and the accountancy profession. ISG trains about 60 students per year for the bachelor's degree in financial and accounting management, and 30 students for the advanced technician diploma in financial and accounting techniques. With respect to private education, the main schools are the following:

- ✓ Haute Ecole Léonard de Vinci (based in Brazzaville),
- ✓ Institut des Hautes Etudes en Management (based in Brazzaville),
- ✓ Ecole Supérieure en Gestion et Administration des Entreprises (based in Brazzaville),
- ✓ Université Libre du Congo (based in Brazzaville),
- ✓ Diriger-Gérer-Communiquer Congo (based in Pointe-Noire),
- ✓ Ecole Africaine de Développement (based in Pointe-Noire).

These schools of higher learning would like to see a national State diploma created for the first cycle, similar to a BTS certificate. In reality, the BAC+2 diploma issued by these schools is not a State diploma, and the bachelor's degree is not either approved or validated by the Ministry of Higher Education because the regulatory framework is still incomplete. Each school organizes its own curriculum and exams. In addition, some schools prepare students for INTEC exams (notably Université Libre du Congo, with a class of about 25 students) or French State *expert comptable* exams.

However, the lack of exam centers in Congo for the latter means that students have to go to Libreville, often with disappointing results. The private schools generally have partnerships with foreign universities, mainly French. However, the diplomas they issue are not recognized by the State, which performs no oversight of the quality of education provided. As a result of these shortcomings in the supply of training, many Congolese students now study in other countries such as Morocco, Côte d'Ivoire, and Senegal.

**32. Congo and the member countries of CEMAC do not have a university degree course and specific diploma leading to the profession of expert comptable:** as indicated above, applicants who seek to become a CEMAC-certified *expert comptable* or member of APC must hold a *Diplôme d'expertise comptable* or a higher degree in accounting that is recognized by the competent authorities. However, there is no degree course leading to the *Diplôme d'expertise comptable* in the member countries of CEMAC. In collaboration with the accountancy profession, universities could consider creating a diploma designed to test future professionals' technical abilities, their professional skepticism, and their capacity to analyze and synthesize data.

**33. There are no APC or CEMAC community regulations governing compulsory continuing professional development.** The CEMAC statutes call for a code of ethics, but none has been developed and implemented to date. In practice, each professional organizes his or her own continuous training. Professionals who are not members of large international networks lack the means to pay the costs of training, even though FIDEF has taken steps in this direction. Continuing professional development is considered essential to enable accounting professionals to maintain sufficient technical and professional competence that they can offer the necessary quality of service and, in particular, that auditors can perform their oversight functions effectively. Furthermore, IFAC has codified the obligation for accountants to develop their knowledge and skill and for professional organizations to set controls in place in this regard.<sup>20</sup> Implementation of a genuine continuing professional development plan for professional accountants in Congo is essential for meeting IFAC requirements in this area.

**D. Accounting and auditing standards in Congo**

**34. Standards involve principles, rules, and methods incorporated into the comprehensive basis of accounting.** To be applicable, the comprehensive basis of accounting must be spelled out by law. The standardization of accounting has the following objectives:

- an improvement in methods of keeping accounts, so as to make financial statements more accurate and trustworthy;
- a better understanding of accounting practices and oversight;
- a better comparison of accounting data over time and space;
- greater facility in consolidating accounts for the development of national statistics.

**35. Since Congo belongs to the CEMAC community and OHADA, the levels of standardization are as follows:**

Sector	National	Regional	
		CEMAC	OHADA
Accounting standards developer for businesses	No entity	Executive Secretariat of CEMAC in	OHADA Accounting Standardization

<sup>20</sup> IES Standard 7 – *Continuing professional development: A Program of Lifelong Learning and Continuing Development of Professional Competence* issued in May 2004, which largely restates an official IFAC recommendation made on this subject in 1982.

		keeping with the OHADA treaty	Commission
Accounting standards developer for banks	No entity	COBAC	Not applicable
Accounting standards developer for insurance companies	No entity	Executive Secretariat of CEMAC in cooperation with CIMA	Not applicable
Accounting standards developer for MFIs	No entity	COBAC	Not applicable
Standards developer for the profession	No entity	Executive Secretariat of CEMAC	No entity

**36. The OHADA Council of Ministers created an accounting standardization commission in December 2008 to assist in accounting standardization.** The regulation instituting an Accounting Standardization Commission (*Commission de Normalisation Comptable*: CNC) under the permanent secretariat was adopted by the OHADA Council of Ministers at their meeting held in Dakar in December 2008. According to Article 3 of the regulation, the OHADA CNC is an accounting standardization advisory body whose purpose is to assist OHADA in interpreting, harmonizing, and updating accounting standards in member countries; the OHADA CNC coordinates and synthesizes theoretical and methodological research on standardization and implementation of accounting rules; at the permanent secretariat's invitation, the OHADA CNC is also responsible for developing any draft reforms of the accounting rules.

As such, the OHADA CNC is charged with the following tasks:

- prepare draft reforms for permanent updates of the accounting system, based on legal, economic, and financial developments at the international level;
- monitor and see to implementation of the OHADA accounting system in member countries;
- encourage harmonization of tax packages in member countries.

Congo does not have a National Accounting Standardization Commission, which could be a source of proposals for effective implementation and updating of SYSCOHADA standards.

**37. Regulation 5/99/CEMAC-002-CM-02 of August 17, 1999, which establishes the organizational structure and operations of the CEMAC Executive Secretariat, sets up an accounting standardization service within the CEMAC Executive Secretariat.** Under the provisions of Article 47 of this regulation, the accounting standardization service of the Executive Secretariat is charged with the following tasks:

- harmonize, standardize, and modernize accounting practices;
- set in place harmonized regulations in keeping with the OHADA Treaty;
- monitor implementation of common insurance regulations;
- organize advanced accountant exams in member countries, monitor and process records of approval in the sector's professions;
- monitor relations with specialized organizations;
- at the Executive Secretary's initiative, conduct any and all studies in its areas of competence.

**38. The Banking Convention<sup>21</sup> on the activities and oversight of credit institutions explicitly confers upon the Central African Banking Commission (COBAC) the role of accounting standards developer (Article 32).** This law, which took effect on January 1, 1999, imposes on banks and financial institutions the requirement that they draw up their accounts in accordance with the accounting provisions and other rules set by COBAC. Based on these regulations, COBAC, as accounting standards developer, establishes through directives (prudential system) the framework in which accounting standards for banking are implemented. COBAC is also the standards developer for microfinance institutions, which are required to adopt a particular chart of accounts.

**39. For the accounting rules set by the CIMA Code, there is no specific organization responsible for standardization:** even though the CEMAC Executive Secretariat is charged with monitoring implementation of insurance sector regulations in cooperation with CIMA, no formal entity has to date performed an updating of CIMA Code accounting standards.

#### **E. Ensuring compliance with accounting and auditing standards**

**40. OHADA, in its provisions pertaining to companies, requires that the accounts of the latter be subject to audit by auditors (compulsory for joint stock companies and for some limited liability companies that meet certain criteria).** Due to the inadequacies of the legal framework, there is no institution that sees to the appointment of an auditor when companies are created through announcements published in the official record. No criminal sanctions are provided against business leaders who do not have their accounts certified by an auditor.

**41. In the financial sector, responsibility for supervising implementation of accounting standards (CACI) is assigned by the monetary authorities to the Banking Commission, which is the oversight body.** As such, it performs regular controls, both documentary and on site, often with the support of BEAC. COBAC organizes and performs oversight of credit institutions. It is empowered to expedite all audits decided by the Commission or dictated by urgency. The national monetary authorities are merely informed of the triggering of on-site investigations and their outcome, while COBAC retains full control of the conduct of audit missions. In the context of expedited investigations, the auditors and all other public or private organizations are required to meet any well-founded requests of the audit missions, without being able to invoke professional secrecy. Banks are audited at least once every two years. Audits performed by the Banking Commission cover several matters: (1) accounting records (CACI), (2) governance, with reports from internal and external auditors (opinion of the accounts and recommendations of internal auditors), and (3) regulatory issues and compliance with prudential rules and standards, principally Regulations COBAC R98/03 and R2003/05 pertaining to debt provisioning. The COBAC prudential system was developed by closely following the principles laid out by the Basel Committee on Banking Supervision and by heeding as well the specific features of the economies of the zone. The Banking Commission possesses expanded powers with respect to sanctions and its decisions are legally binding within the territory of each member country of CEMAC. Microfinance institutions with a total volume in excess of 500 million are subject to oversight by an auditor who must be an *expert comptable* authorized by CEMAC.

**42. In the insurance sector, CRCA at the CIMA level and the Insurance Directorate at the national level oversee the accounts of insurance companies.** CRCA possesses oversight and sanction powers analogous to those of the Banking Commission. The results of on-site controls lead to a two-sided report – with the company entitled to formulate responses to the auditors’ observations – and they are reported to the supervisory ministry, the board of directors of the audited entity, and the auditor. The frequency of audits is about one every two years on average. In 2007, CRCA audited an insurance company and then placed it under ARC provisional administration in April 2008. In addition, the Insurance Directorate of the Ministry of Finance also performs documentary and on-site

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<sup>21</sup> Convention of January 17, 1992 on harmonization of banking regulations in the countries of Central Africa.

controls of insurance companies' accounts. This directorate has five auditors, but its controls focus more generally on ad hoc matters or documentary evidence.

**43. COSUMAF<sup>22</sup> is responsible for ensuring that publicly traded companies adhere to their obligations in the area of financial reporting.** Created at the December 8, 2001 conference of CEMAC Heads of State, this body is charged with ensuring compliance by issuers of securities with their market obligations. Persons or entities are deemed to be publicly traded:

- if their securities are admitted to the Central African Stock Exchange, under the conditions set by the market's Managing Enterprise;
- if, for the purpose of offering securities to the general public of a CEMAC member country, of any sort whatsoever, they utilize the services of brokers or any other institution authorized to make investments in financial matters, or they utilize publicity methods of any sort, or they engage in solicitation;
- if their securities are distributed beyond a circle of 100 persons.

COSUMAF does not have a unit specifically dedicated to verification of accounting records and financial market information.

**44. In the parapublic sector, the mission of the National Independent Auditor (*Commissariat National aux Comptes* - CNC) is to certify the accounts of State-owned enterprises. CNC possesses the means to perform oversight of the enterprises and ensure proper implementation of SYSCOHADA.** CNC receives copies of the financial statements and progress reports of State-owned enterprises at least 40 days before the management committee meets and no later than March 31. CNC has 25 auditors, including two mission directors, eight mission officers, and 15 assistant auditors. With a portfolio of some 15 enterprises, CNC performs four co-auditor missions with private firms. The certification reports are signed jointly by CNC and the firm. It makes sense at this juncture to question the merit of this dual control, which only increases the fees to the detriment of the enterprises. The ROSC team believes that the CNC missions should be reviewed such that existing capacities within this structure are redeployed toward three targets: (i) the Audit Office; (ii) a State Portfolio Directorate to be created within the Ministry of Finance, Budget, and State Portfolio; and (iii) the accountancy profession.

**45. There is no quality control over professional performance within the accountancy profession.** This lack of quality control is due to the absence of an accounting body and applicable professional standards on which quality control must necessarily be based. The community statutes call for the implementation of quality control within the CEMAC zone under the supervision of the High Council of the Accounting body, which does not yet exist (Article 62 of Regulation 11/01-UREC-027-CM-07 of December 5, 2001 amending the status of independent accounting professionals). The commission envisioned by Article 63 for performing quality control during the transitional period has not been set in place either. It should also be noted that sanctions are laid out in Articles 24 and 25 of the Regulation for professional misconduct by an *expert comptable* or an auditor. No one disputes that, by setting up a quality control system, the quality of accounting and auditing services in Congo can be assured, along with adherence to the rules of ethical professional conduct.

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<sup>22</sup>See the following statutes:

- Additional Act 03/01-CEMAC-CE creating the African Financial Market Supervisory Commission.
- **Regulation 06/03-CEMAC-UMAC of November 12, 2003** establishing the organizational structure, operations, and supervision of the Central African Financial Market.
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### III. ACCOUNTING STANDARDS

#### A. SYSCOA-SYSCOHADA and other applicable accounting systems in Congo – Principal differences with IFRS standards<sup>23</sup>

46. The various charts of accounts applicable in Congo (SYSCOHADA for entities other than banks and insurance companies, Credit Institution Chart of Accounts for banks and financial institutions, CIMA Code Chart of Accounts for insurance companies) show significant differences with IFRS international standards. SYSCOHADA, in effect since 2000, had incorporated input from the IAS/IFRS international standards of that time. However, SYSCOHADA now needs to be simplified, modernized, and brought in line with current IFRS international standards. Discussions are under way within OHADA to make SYSCOHADA converge with IFRS standards. Thus, a workshop organized in Dakar in 2008 by ONECCA of Senegal on the evolution of SYSCOHADA, attended by professional associations of the OHADA zone, proposed a convergence of this system with IFRS international standards for Small and Medium Enterprises (IFRS for SMEs). A comparison between SYSCOHADA and IFRS for SMEs elucidates the main differences, as discussed in the paragraphs below.

47. The significant differences between SYSCOHADA and the IFRS SME standards mainly revolve around the following points: architecture, conceptual framework, presentation of financial statements, and specific rules of reporting and assessment.

- **The design and architecture of SYSCOHADA are different from those of the IFRS SME standards:** In designing the IFRS SME standards, IASB wanted to make available to non-public interest entities a body of standards that lacks the cumbersomeness and complexity of the full IFRS. Thus, the standards' scope of application is not determined by the entity's size or turnover. The IFRS SME standards are not designed for entities that must report to the public, listed companies, financial institutions, and companies that issue debt or equity instruments on a public market. Unlike IFRS SME, SYSCOHADA applies to all businesses other than banks and insurance companies. As indicated above, SYSCOHADA also calls for varying levels of financial reporting requirements, depending on the size of the business. In terms of its architecture, and contrary to IFRS, SYSCOHADA addresses not only the nature and characteristics of the data reported in financial statements, but also the way in which the accounting is organized, the procedures used for bookkeeping, and the form that these documents should take (these matters are covered by a dozen articles of the Uniform Act of November 10, 2000).
- **Weakness of the SYSCOHADA conceptual framework.** The international standardization embodied in the IFRS SME standards is based on a conceptual framework for the preparation and reporting of financial data called the "Conceptual Framework." This framework embraces a set of fundamental accounting principles and objectives that are interconnected and designed to permit the development of consistent standards. There is a conceptual framework in SYSCOHADA but, unlike the IFRS SME standards, definitions are lacking: assets, liabilities, costs, income, etc. SYSCOHADA is a relatively

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<sup>23</sup> For the World Bank, annual financial statements must be prepared in accordance with accounting standards deemed acceptable. These acceptable accounting standards are: the International Financial Reporting Standards (IAS/IFRS) issued by the International Accounting Standards Board (IASB), or the International Public Sector Accounting Standards (IPSAS) developed by the Public Sector Committee of the International Federation of Accountants (IFAC-PSC) (cash basis of accounting or commitment basis of accounting). In addition, the Bank may accept national accounting standards if they do not deviate too greatly from international standards and the effect of any differences is duly explained. This is the case with SYSCOHADA.

brief statute (Uniform Act of OHADA) that leaves greater room for interpretation than do the international standards on certain points that have now become important.

- **Presentation of financial statements.** Unlike the IFRS SME standards, where a framework for the presentation of financial statements has been clearly defined (Section 3, Paragraph 17),<sup>24</sup> SYSCOHADA lays out a compulsory model for financial statements that includes the balance sheet, the income statement, the source and application of funds statement (TAFIRE), and the notes to the financial statement. The obligatory closing date is December 31 of each year under SYSCOHADA. The IFRS standards, on the other hand, propose the preparation of financial statements at least once a year. SYSCOHADA calls for a source and application of funds statement that is complex to prepare and to interpret, instead of the cash flow statement specified in the IFRS SME standards. The SYSCOHADA financial statements, especially in the notes, contain information that is sometimes irrelevant for many businesses, in comparison to the annex to the IFRS SME standards, which provides a high level of financial reporting.
- **Specific rules of reporting and assessment.** In comparison to the full IFRS, the developers of the IFRS SME standards chose certain options designed to: (1) eliminate processing options, (2) eliminate certain topics irrelevant to SMEs, and (3) simplify reporting and assessment methods. Despite these choices, major differences remain even though these options should facilitate the use of IFRS SME standards by businesses in the OHADA zone.
- ***Pre-eminence of historical cost in SYSCOHADA compared to IFRS SME in regard to tangible and financial assets.*** The possibility of reporting an asset or liability at fair value – i.e. its economic value based on market price or estimated future benefits to be derived from same, for example in the form of cash flow – is limited under SYSCOHADA to fixed assets (land, buildings, etc.), and solely in connection with a revaluation approved by the competent authorities. The IFRS SME standards make it possible, on an optional basis, to report tangible assets either at cost price or according to the market value revaluation model. For financial assets, IFRS SME calls for the reporting of loans, debts, and unlisted securities on the balance sheet at par value. Other financial assets (listed securities and other short-term investments) are reported at fair value.
- ***Principles of capitalization of certain expenses as intangible assets.*** SYSCOHADA, just like IFRS SME, permits capitalization on the balance sheet of certain types of expenses as development costs, although the criteria for capitalization of these expenses are stricter under the international standard. However, SYSCOHADA permits the recording of certain types of expenses as assets (under the heading “deferred costs” or “to be staggered”), whereas the IFRS SME standards advocate recording them as costs of the current period.
- ***Provisions for contingencies and expenses, the recording of which does not require, under SYSCOHADA, the existence of a legal or implicit obligation,***<sup>25</sup> contrary to the IFRS SME standards. In practice, this means that businesses applying SYSCOHADA have greater latitude to record in their accounts provisions for operations whose realization depends on future events, which gives them greater flexibility in steering their results.

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<sup>24</sup> According to Section 3, Paragraph 17 of the IFRS SME standards, a complete set of financial statements includes: a balance sheet; a statement of comprehensive income; a statement of changes in equity; a cash flow statement; and notes to the financial statement that present the principal accounting methods used by the entity.

<sup>25</sup> Article 48 of the Uniform Act of November 20, 2000 poses, as a condition for recording a provision, the fact that risks or expenses must be “clearly specified as to their purpose,” and that past events or events in progress must make them only “probable,” which does not necessarily imply the existence of an obligation vis-à-vis third parties.

- **Accounting treatment of construction contracts, which can be based on the completion method according to SYSCOHADA.** This method results in the profits on a construction contract (often called as well a long-term contract) not being taken into account until the client checks and receives the work.<sup>26</sup> Under the IFRS SME standard on construction contracts, profits on this type of operation should be shown in partial amounts as the work proceeds, so that financial statements more accurately reflect the results of the activities of the period that they cover, which is one of their main objectives.
- **Certain financial commitments may be considered “below the line” in SYSCOHADA, whereas they should result in the recording of an asset or a liability under the IFRS standards.** This is true in particular of commitments related to employees who retire, where setting aside provisions is optional under SYSCOHADA. With respect to leasing, SYSCOHADA calls for recording finance leases only on the balance sheet, whereas the IFRS SME standard on the recording of leases encompassing all leasing operations, regardless of their legal form.
- **The concept of deferred taxation is invoked by SYSCOHADA only for consolidated accounts.** The IFRS SME standard on deferred taxes requires the inclusion in individual accounts of deferred tax assets or liabilities related to the lag between the date when income and expenses are recorded and the date when they are imposed or deducted. The impact of this difference may be all the more significant because SYSCOHADA permits, in individual accounts, the inclusion of so-called regulated provisions, fiscal in nature and with no economic basis.<sup>27</sup>
- **As regards consolidation, the issue of groupings of enterprises is addressed in SYSCOHADA quite superficially, in two brief articles,**<sup>28</sup> while this is the subject of a relatively detailed international standard under IFRS SME.

These significant differences imply that financial statements prepared in accordance with the provisions of SYSCOHADA provide the users of these statements with information that is of substantially lower quality and considerably less useful in comparison to the IFRS SME standards, all other things being equal.

**48. SYSCOHADA, despite the differences in relation to IFRS standards, has a number of positive features that should be maintained during harmonization efforts. SYSCOHADA presents the following comparative advantages, among others, in comparison to IFRS standards:** (1) For purposes of financial reporting, three categories of enterprises have been identified: the normal system, the simplified system, and the minimum cash system. However, the definition of these three categories and the accounting simplifications envisioned for medium and micro-enterprises still need to be worked out. (2) There is an accounts nomenclature that facilitates bookkeeping and constitutes a harmonization factor. When convergence toward IFRS standards is undertaken, this nomenclature should be reviewed and adapted. (3) The existence of bookkeeping rules and the way bookkeeping is organized also constitute an advantage for SYSCOHADA.

**49. The accounting rules applicable to banks and credit institutions contained in the Chart of Accounts for Credit Institutions (CACI) of COBAC differ from IFRS in several significant ways.** The CACI governs how accounting is organized in banks and credit institutions in Congo. It defines: 1) the general regulatory framework, 2) the summary documents, and 3) transmittal of the summary documents. In terms of the presentation of all the financial statements drawn up, it bears mention first of all that, in the CACI, these statements include neither the cash flow statement nor the statement of changes in equity, and that “below the line” constitutes a financial statement in its own

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<sup>26</sup> Uniform Act of November 20, 2000, Article 60. The so-called advancement method is accepted by SYSCOA.

<sup>27</sup> For example, provisions for price increases, for price fluctuations, for investment, etc.

<sup>28</sup> Articles 82 and 83 of the Uniform Act of November 20, 2000.

right, which can be explained by the sensitive nature and scope, in terms of volume of transactions, of below the line commitments in the banking sector (bonds, guarantees, securities, etc.). The exchanges held with certain directors of banks, affiliates of large groups, indicate that, to be in a position to fulfill group reporting requirements, they are forced to adapt their CACI accounting to international IFRS standards. In view of the international environment and the evolution of international accounting standards, the banking sector cannot remain on the fringe of this movement. It should be possible to overhaul the CACI in such a way as to evolve in line with IFRS standards. In terms of asset and liability assessment rules, the principal differences between the accounting standards for banks and IAS standards revolve around the following points:

- **Provisioning of the credit portfolio.** The accounting standards for banks in regard to credit provisions are laid out in such a way as to avoid erroneous or improper interpretations. They are contained in COBAC Regulation R 98/03 concerning loans in arrears, applicable in Congo since January 1, 2000, for which it sets minimal rules of provisioning. These rules follow an approach that consists of assessing provisions by using inclusive loss percentages that vary depending on the different credit categories specified by the regulator. These percentages are determined in a relatively arbitrary way and so as to ensure, from the regulator's point of view, the prudence of the estimates. IAS 39 (Financial Instruments: Recognition and Measurement) follows a different approach that consists of assessing portfolio losses based on recovery projections for each credit or for each credit group with similar characteristics, which often leads to different assessments than the assessment that results when percentages are applied.
- Rules for reporting and assessing financial instruments subsequent to the updating and publication of new, related IFRS standards.
- *Existence in the CACI of "provisions for general banking risks" or "provisions for major compensation."* The IFRS standards rule out covering such risks with provisions, because they do not correspond to an obligation or an identified risk of non-recovery.

**50. In the insurance sector, the accounting rules of the CIMA Code are clearly different from those advocated by IFRS on several key issues.** The CIMA chart of accounts designed for 14 countries has not evolved in such a way as to match up with international standards. This chart of accounts, in the opinion of users, is obsolete. Accountants working in insurance companies are trained in an environment of SYSCOHADA or other standards but, in terms of professional practice, they use an inappropriate chart of accounts. Furthermore, in regard to accounting principles, the CIMA Code is based on historical cost, although for certain operations, particularly involving transfers of securities or companies, use of the historical cost is not appropriate. Sector professionals believe that financial statements should be prepared on the basis of the fair value principle, which is more appropriate to insurance companies. The other principal differences between the CIMA Code and the IFRS standards are the following: cash flow statements and statements of changes in equity are not required, a lower level of appended information is required, etc. Financial statements are designed first and foremost as an informational tool for supervisory bodies, not shareholders, subscribers, or any other stakeholders. The accounting rules applicable to insurance companies that are contained in the law on insurance activities also differ from the IFRS standards, particularly on the assessment of regulated provisions and especially:

- provisions covering future risks;
- provisions for future management expenses or for equalization;
- provisions corresponding to premiums not received.

## **B. Conditions of effective implementation of accounting standards**

**51. A review of financial statements of December 31, 2008 for a sample of enterprises reveals inadequate implementation of SYSCOHADA accounting standards with respect to the level of information provided.** Due to the unavailability of companies' annual accounts at the office of the clerk of the court, the review performed by the ROSC team was limited to some 20 businesses from a variety of sectors (oil, banking, general trade, industry, port infrastructure, insurance, etc.) whose capital is held by the State and private sector enterprises. This review identified several examples of noncompliance with SYSCOHADA provisions. The principal observations generated by the review are summarized below:

- **The notes to the financial statement, if they exist at all, are very incomplete:** in general, the notes to the financial statement are cumbersome and many headings are not filled out. Under too many headings, the comment "nothing" is improperly entered. It appears that businesses do not adequately follow the principles of relevance and significance of information when preparing the notes to the financial statement.
- **Some businesses present packages based on the simplified system although, according to the thresholds set by law, they should do so based on the normal system:** it thus appears that controls concerning adherence to these provisions are insufficient.
- **There is no TAFIRE in the financial statements presented by some businesses under the normal system:** it appears, moreover, that businesses do not always understand the relevance or purpose of this table.
- ***Certain provisions set forth in SYSCOHADA are not implemented or are rarely implemented.*** This is true of the following points emerging from the review:
  - **Many businesses did not report provisions for retirement severance pay.** When such provisions are included in the accounts, no comments are given in the notes to the financial statement, or if comments are in fact given, no reference is made to the assessment methods used.
  - **The assessment rules followed by the businesses are not explained in the notes to the financial statement.** In many cases, the accounting rules and methods and assessment rules used are not described in the notes to the financial statements reviewed by the team.
  - **The restatements called for in connection with leasing arrangements are not presented in the notes to the financial statement;**
  - **Significant amounts appear in the income statement in the section on Extraordinary Activities (*Hors Activités Ordinaires* - HAO) or under the heading Incidental Income, without any explanation given by the business in the notes to the financial statement.**

These observations mainly apply to businesses whose accounts are not prepared by tax advisors or auditors.

## **IV. AUDITING STANDARDS**

**52. With respect to the use of professional standards, the auditing standards applicable in Congo have not been defined, with the result that different auditing firms follow different**

**practices:** audit missions are performed in different ways depending on the size of the firm and whether it belongs to an international network (big four). It would be prudent to develop seminars on ISA standards for sector professionals, because the team's review of a number of audit reports shows numerous gaps in the conduct of insurance missions as regards implementation of these ISA standards. The most significant gaps are the following:

- **In some firms that have been given mandates to perform audits, there is a lack of proven competence in auditing.** These firms are more specialized in bookkeeping, yet they possess auditing mandates. The reports they produce are therefore highly insufficient in relation to international IFAC requirements.
- **Insufficient attention to audit diligence by the auditor.** In most cases, the general methodology for audit missions set forth by IFAC is not followed by the auditors. This includes implementation of the risk approach (ISA 200), quality control for audit work (ISA 220), the approach based on understanding the entity and its environment (ISA 315), application of the materiality level (ISA 320), and implementation of appropriate procedures based on assessed risks (ISA 330). In addition, computer risks are not examined by the audit missions, although such an assessment, in a highly computerized environment, could help identify major risks for the audited entity.
- **Insufficiency or absence of formalization in the auditor's work records, general conclusions, and justification of the opinion expressed in the audit report.** This situation, combined with the absence of predetermined materiality levels, results in inappropriate or unclear audit opinions based on the observations made.
- **Lack of precision with respect to auditing standards<sup>29</sup> and accounting standards followed in the reports.** Sector professionals refer in their audit reports to "standards generally accepted" at the international level or to "standards of the profession." Yet in Congo, as indicated above, the profession does not yet possess national professional auditing standards. In addition to the comment in the report of the accounting system of reference concerning the basis on which the financial statements were prepared, the auditor must explicitly mention the auditing standard used. Phrases such as "generally accepted standards" should be avoided.

In view of the preceding, by implementing professional standards and a quality control system for audit activities, the quality of accounting and auditing services in Congo can be assured, along with adherence to the rules of ethical professional conduct, particularly in the case of firms that are not members of large networks (big four).

**53. In several respects, the absence of a regulatory framework and the environment in which audit missions are conducted in Congo are not conducive to efficient implementation of international standards.** As noted earlier, exchanges with representatives of the profession in connection with this ROSC mission served to highlight the profession's difficulties. This situation stems from the following factors:

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<sup>29</sup> For the World Bank, annual financial statements must be audited in accordance with auditing standards deemed acceptable. The acceptable standards are: the International Standards on Auditing (ISA) developed by the International Auditing and Assurance Standards Board of the International Federation of Accountants (IFAC) for private entities, the auditing standards developed by the International Organization of Supreme Audit Institutions (INTOSAI) for public entities; the World Bank may also accept national auditing standards if they do not deviate significantly from international standards.

- **Absence of an accounting body.** Noncompliance with community (CEMAC) statutes on setting up an accounting body constitutes a major impediment to organizing the profession in Congo.
- **Absence of internal and external quality control over professional practices.** The activities of professionals in Congo are not subject to oversight by CEMAC authorities or any other institution. This lack of oversight implies that professionals who do not observe the rules and standards in effect are not sanctioned. A system of oversight of the implementation of standards and the quality of work performed by professionals would play a deterrent role and would also enable the profession to grasp more clearly the concrete difficulties faced by professionals and provide them with solutions.
- **Inadequacy of continuing professional education.** There are no provisions governing continuing professional training for professional accountants to ensure that they possess the knowledge needed to provide services of high quality.

## V. PERCEPTIONS REGARDING THE QUALITY OF FINANCIAL REPORTING

**54. As indicated above, the demand for accounting and financial reporting still appears to be largely undeveloped in Congo.** This observation can be explained in particular by a capital market that is limited to a few enterprises, mostly in Pointe-Noire. The banks seem to have great difficulty obtaining financial statements from businesses applying for loans, which appears to be an impediment to credit. Some fervently hope for effective implementation of the registry of annual accounts at the office of the clerk of the commercial court, as specified by OHADA, or a Central Accounts Archive in the country.

**55. The effort by businesses to evade taxation appears to be a major impediment to adherence to accounting rules and financial transparency.** Many businesses belong to the so-called “informal” sector and do not produce any accounting data. Private sector actors indicate that heavy tax pressure from the Government lies at the root of this situation. Thus, it is often suggested that the tax incentives associated with AMCs should be expanded so that more businesses will join in and leave the informal sector.

**56. As regards public enterprises, the reports of the National Independent Auditor demonstrate the insufficient quality of financial and accounting data.** For the 15 State-owned companies, only two reports were issued with an opinion of “no reservations” in 2008. The remaining 13 reports were certified “with reservations.”

**57. A large number of professionals and observers recognize the significant progress brought by SYSCOHADA, but they have highlighted the difficulties with its implementation and the need to update it, while retaining some of its specific features.** The principal difficulties raised include, in particular:

- the standardization organizations that are supposed to propose updates to SYSCOHADA are not operational, hence there is an absence of doctrine regarding its implementation;
- the complexity of the source and application of funds statement (TAFIRE), which is one of the three required statements under SYSCOHADA;
- the fact that SYSCOHADA is not sufficiently effective as a business management tool.

**58. Most of the persons interviewed during this ROSC Accounting and Auditing Mission recognize the importance of an accountancy profession in Congo.** These observers and sector professionals do indeed agree that the accountancy profession must play a major role in the quest for a

higher quality of financial reporting. The issues deemed priorities for the profession come down to the following:

- creation of an accounting body ;
- implementation of professional standards and quality control within the Accounting body in line with IFAC standards;
- training to improve the technical competence of sector professionals;
- prevention of illegal exercise of the profession.

## VI. RECOMMENDATIONS

**59. The primary objective of this ROSC mission to Congo is to support the efforts of national and community authorities to improve accounting practices, strengthen the role of auditors, and increase financial transparency in the private and parapublic sectors.** The development objectives associated with the recommendations presented in this report are: (1) stimulation of private investment and enhancement of corporate competitiveness, (2) improved governance in the private market sector and the parapublic sector, and (3) improved and greater integration of the Congolese economy, both internationally and especially in Africa. Based on the recommendations set forth below and the discussions that will take place at a working seminar, to be held in Brazzaville with the participation of all stakeholders, an action plan will subsequently be developed for implementing improvements, under the auspices of the Government of Congo and the CEMAC Executive Secretariat, with assistance from the World Bank and other donors who so desire.

**60. The recommendations of the ROSC Accounting and Auditing Mission are likely to result in significant advances for many sectors of Congolese society, particularly the following:**

- **Businesses of the formal sector** – Improvements in the quality, reliability, and accessibility of accounting and financial data will facilitate access to credit.
- **Banking sector** – With accounting and financial data of higher quality, more reliable, and from a greater number of businesses (particularly SMEs), banks will be in a position not only to manage their credit risk more effectively, but also to diversify their operations, and thereby reduce the concentration of risks and develop their activities.
- **Accountancy profession** – The credibility and brand image of the profession can be further improved by setting in place professional standards and control mechanisms and by giving a boost to continuing professional development, which will also serve to improve accounting and auditing practices in Congo and the services provided by Congolese auditors and accountants. The profession's image will thereby improve from the perspective of businesses and investors, and the profession will be better able to develop its services. In addition, a reduction in the illegal exercise of the profession will create an environment of fair competition and provide a boost in income for duly accredited professionals.
- **Public sector** – Improvements in the quality of data from parapublic enterprises and in the public availability of this data will help strengthen the financial management of these enterprises.
- **Business employees** – The opportunity for employees to obtain financial statements will enable them to be properly informed about the workings of the businesses that employ them.

## ACCOUNTING STANDARDS

**61. Improve the regional and national institutional framework by making standardization organizations such as the OHADA CNC and the national entity fully operational, and making**

**sure they are provided with adequate resources.** Accounting standards require constant updating, not just to improve the effectiveness of accounting practices but also to treat certain operations or situations that the standards had not initially anticipated. The OHADA CNC should form links with international organizations working in the field of accounting and auditing so that it will be constantly informed about the latest modifications/updates to international accounting standards and to ensure their proper implementation in the zone. The National Accounting Board should be set in place in Congo.

**62. Undertake an updating of SYSCOHADA with the OHADA Permanent Secretariat.** The OHADA CNC, as an advisory body of OHADA, charged with standardization of accounting practices and responsible for assisting the Permanent Secretariat in the development and harmonization of accounting standards in the zone, should perform a diagnostic study of SYSCOHADA and adapt it to IFRS standards. SYSCOHADA, in its present configuration, suffers from cumbersomeness and omissions. The usefulness of some tables in the notes to the financial statement is often questioned, and the value of the TAFIRE is not generally well understood by practitioners. The thresholds set for the normal real system are low, such that many businesses have not been able to benefit from the simplified system. This results in noncompliance with the provisions concerning notes to the financial statement in the normal real system. It is important to raise the thresholds for applying the accounting standards advocated by SYSCOHADA. The best solution would be to gradually bring SYSCOHADA accounting standards more in line with IFRS SME standards over a reasonable period of time. The use of IFRS standards by public interest enterprises can strengthen the credibility of accounting and financial reporting from the perspective of foreign users and investors who find themselves far from the source of information and locus of activity. This mission to harmonize and reconcile SYSCOHADA and IFRS should be led by the OHADA authorities based on a common and shared approach. Community entities should give special attention to training relevant actors prior to implementation of the updated SYSCOHADA once it has been harmonized with IFRS.

**63. With community actors, undertake an updating of the sectoral charts of accounts for banks, microfinance institutions, and insurance companies.** In the specific case of banks and financial institutions, the Uniform Act organizing and harmonizing the accounting practices of businesses exempts them from the OHADA accounting system. However, the Council of Ministers gave instructions, at the meeting held in Yaoundé on March 21-24, 2001, for the sectoral charts of accounts of banks and financial institutions to be harmonized with the Common General Chart of Accounts. There is an urgent need for the sectoral charts of accounts to be brought in line with the OHADA accounting system and international standards.

**64. Encourage businesses in the informal sector to move toward the formal sector by adopting a law on AMCs and a system of tax incentives.** During this ROSC mission, private sector operators met by the team displayed an interest in the development of AMCs. By setting in place a legal and regulatory system that takes into account APNI's local experience with pilot AMCs and lessons drawn from the experience of other countries, micro and small enterprises in Congo can be encouraged to produce financial statements modeled on the minimum cash system as provided by SYSCOHADA. The legislation on AMCs should therefore be adopted.

#### **ACCOUNTANCY PROFESSION – PROFESSIONAL STANDARDS**

**65. Adopt a law to establish an accounting body in accordance with CEMAC community statutes.** This decision is urgently needed to ensure the profession's credibility both nationally and internationally. The commission created by the Ministry of Finance to organize the profession should quickly finish its work and make use of the available draft statute to submit it to the authorities.

**66. Adopt international auditing standards at the CEMAC level and see to their implementation at the national level through each national accounting body so as to strengthen the accountancy profession and allow it to exercise its functions effectively.** The CEMAC Executive Secretariat must possess sufficient technical and human resources to be able to fulfill its

role completely and effectively. In the current context of economic integration, there is an apparent need to set in place regional auditing standards, design and implement a quality control system, and strengthen the technical capacities of the national accounting bodies. **The CEMAC Executive Secretariat will also need to undertake a process of bringing regional standards in line with ISA standards.** In practical terms, the approach would consist, for the CEMAC authorities, of undertaking a process of analyzing the ISA standards, with the participation of the national accounting bodies, to ensure that no provisions would conflict with community statutes or with the legislation in member countries, and then identifying training actions to be carried out within the national accounting bodies to ensure proper implementation of the ISA standards.

**67. Adopt the French version of the ISA standards as the national auditing standards and develop regulations for their implementation.** Congo should adopt, as its national standards, a French translation of the ISA and the code of professional ethics developed by FIDEF, in their current and future versions. The IFAC standards presently offer adequate guarantees of transparency and objectiveness at the international level. They are regularly updated within a sufficiently secure framework, and their accessibility is unrestricted. Adopting the ISA standards as national standards without reference to a specific version offers the advantage of facilitating the process of updating the standards without having to amend any statutes.

**68. Put in place a system for monitoring exercise of the profession, designed to ensure the quality of accounting and auditing work and observance of ethical rules within the profession.** Because of the public interest mission of their work, auditors should be subject to strict oversight in order to make sure that they fulfill their professional obligations. This supervisory function falls to the High Council of the accounting body or to a CEMAC commission which should develop a program to monitor observance of auditing standards and the code of professional ethics by the members of each national accounting body. The accounting body to be created in Congo should also embrace international quality control standards as advocated by IFAC by implementing ISQC1 (International Standard on Quality Control). This quality control system should be set in place gradually.

**69. Develop a code of professional ethics in the CEMAC zone.** CEMAC authorities should develop a code of ethics consistent with the IFAC code and adopt regulations that will govern how it functions.

**70. Support the profession's efforts to combat illegal exercise of the profession by strengthening the system of sanctions against providers not registered with CEMAC and the enterprises that utilize their services.** Suppressing illegal exercise of the profession is a necessary corollary of the heightened requirements applying to duly accredited professionals. In reality, illegal exercise absorbs a considerable share of the accountancy profession's potential income, thus making it more difficult to ensure the profitability of efforts to boost the level of quality expected from it. The accounting body should also formulate a communication strategy and promote the services rendered by the profession and the requirements for providing same as a way to deter behavior involving conflicts of interest or illegal exercise of the profession.

## TRAINING

**71. Implement a plan of compulsory continuing professional education aimed at bringing all members of the profession up to standard.** In view of the importance of updating the knowledge of each professional, it is important to adhere to a certain number of hours of training per year consistent with IFAC standards. The accounting body should determine the specific training needs of professionals and develop continuing professional training and development programs in line with the requirements laid out in the IFAC International Education Standards for Professional Accountants.

**72. Revise the curriculum at business and accounting schools so that in the medium term a larger number of qualified accountants are produced, management skills are more diversified, and the quality of education is improved.** To that end, procedures should be set in place to exercise

oversight of the education provided in private business schools and to recognize the diplomas issued by these schools. The public authorities should improve the quality of education in accounting techniques at these schools (secondary or higher education) by placing an emphasis on competence in the recruitment of teachers and by developing a framework of public/private cooperation in defining an education that is responsive to the needs of the national economy in general and the private sector in particular. The accounting curricula in Congo should be consistent with the IFAC International Education Standards for Professional Accountants. This requirement would serve to boost the credibility of diplomas issued in the country. It is significant that the APNI training project, specifically in its skills framework component, chose accounting (BTS level) as one of the sectors of activity. Consequently, an exchange arrangement should be struck between the State and the private sector to capitalize on APNI's experience and know-how in this area.

**73. Initiate discussions with CEMAC authorities on implementation of a *Diplôme d'expertise comptable* in the zone:** the country's authorities should undertake discussions with CEMAC to create a regional *Diplôme d'expertise comptable*. This would reduce education costs for Congolese students and facilitate access to the industry.

#### ACCESSIBILITY OF BUSINESSES' FINANCIAL DATA

**74. Require an affidavit from a member of the accountancy profession to accompany financial statements submitted to the tax authorities.** To improve the quality of accounting and financial reporting in the private sector, it is important that annual financial statements be reviewed and validated by a duly authorized member of the accountancy profession before they are submitted to the Tax Directorate. A Central Accounts Archive should also be set in place at GTD and/or BEAC.

**75. Strengthen the technical and organizational capacities of the Commercial Courts.** Improving the Commercial Court of Brazzaville, for example, will serve to: (1) ensure better management of legal and natural persons registered at the office of the clerk of the court, through monitoring and computerization of the Registry of Trade and Personal Property Credit, and (2) permit the receipt, consulting, and archival storage of financial statements submitted by businesses.

**76. Redefine the mission of the National Independent Auditor (CNC) in managing the State portfolio and auditing the financial statements of State-owned enterprises.** The mission of CNC should be reviewed. Management of the State portfolio by an appropriate division of the Ministry of Economy and Finance is not clearly spelled out at the present time. The ROSC team believes that a State Portfolio Directorate should be created under the Ministry of Economy and Finance in lieu and instead of CNC. The technical staff of CNC could be reassigned to the Audit Office, the State Portfolio Directorate, and the accountancy profession. In addition, the intervention capacities of other structures involved in the oversight of State entities and particularly the Audit Office, the General State Inspectorate (IGE), and the General Finance Inspectorate (IGF) should also be improved. To avoid redundant controls, attention should be given to the question of the appropriateness of maintaining four oversight structures.

**77. Formally create the steering committee to develop a detailed action plan based on the recommendations of the ROSC mission and ensure that the actions are coordinated and their implementation monitored.** This committee<sup>30</sup> will be composed of seven members and chaired by a senior official of the Ministry of Finance. It will be charged with the following tasks: (1) develop a detailed action plan that clearly presents, in sequence, the key actions to be undertaken, the parties responsible for these actions, the implementation schedule, and the resource requirements; and (2) coordinate the envisioned reforms and monitor implementation of the relevant actions.

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<sup>30</sup> Which could be set up within the framework of the public-private dialogue platform.